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CRITIQUE OF THE ECONOMIC SURVEY

PLANNING, DIAGNOSIS AND TARGET FOR 1947

This article will be confined to a discussion of the economic principles underlying the planning and diagnosis and the target for 1947 given in the Government's 'Economic Survey', Related questions of policy will be discussed in the article which follows.

1. *Economic Planning*

§1 (1). In this section of the survey, the authors explain what kind of planning the Government seeks to develop, how the plan is made and by what means the Government will guide the economy according to the plan.

Each of the basic industries and services such as coal, power, steel, agriculture, transport and building, is to have its own long-term plan and the purpose of the central plan is to ensure that these plans for separate sectors are properly balanced and co-ordinated and pressed forward as fast as is consistent with leaving enough resources free to supply the unplanned sectors of the economy.

Although the main emphasis of the survey is on the calendar year 1947, it is intended to extend the analysis to five years so soon as the major uncertainties, especially those in the international field, resolve themselves sufficiently to make this possible. Already preliminary work on these lines has begun.

The main sectors of the plans prepared for 1947 are balance sheets setting out resources and requirements in terms of (i) man power, (ii) national income and expenditure, (iii) an import programme and export target with an analysis of the foreign exchange position, (iv) an investment programme with an analysis of requirements for capital equipment and maintenance, (v) programmes and analyses for each bottleneck material such as coal, timber and steel.

In the survey, as is natural in a document for the general public, much more is said about the earlier of the five items than the latter. But in actual practice it should be the more detailed plans (iii), (iv) and (v) that matter, the global plans (i) and (ii) merely serving as a general indication of policy and as a framework into which it is hoped to fit the plans under (iii), (iv) and (v).

Having set out their plans indicating the priorities attached to the various uses of the country's resources, the Government has many means of guiding the economy according to the lines laid down by the plan. The Government itself is the buyer of many of the goods and services to be provided and it can

determine the lines of policy of the socialised industries. By taxation and subsidies it can influence the market for consumers' goods and by price control it can discourage production of particular commodities. Finally it can allocate scarce resources by such means as rationing, raw material controls, building licences, production controls, import licences and capital issues control.

But the authors stress that in addition to these means of guidance the Government will rely on the co-operation of both sides of industry and of the consuming public. Little is said about methods of attracting labour to where it is most needed, except that the Government disapproves of any further increases in wages and profits in the absence of corresponding increases in production per man.

The authors refer briefly to the experience of planning gained during the war, and in discussing the first part of the Survey, a further comment on this experience will be useful.

§1 (2). The planning of munitions production was built up gradually and had got into its stride by 1941. The central feature of this planning was a set of detailed programmes of output relating to the important weapons and their principal components. These programmes were given wide publicity within the supply departments and all the planning of the individual production branches within the departments had to be squared with the agreed detailed programmes.

At first performance was not closely related to programmes, but as experience was gained, the performance was usually found to keep within a small percentage of each detailed programme. The technique by which this was made possible was that a very careful check was kept on all bottleneck items, and supplies of these were allocated to those firms that needed them in order to fulfil their programme for high priority components and weapons. In cases where a severe bottleneck had not been foreseen it was of course necessary to lower the programmes of the components affected : but towards the end of the war such disasters became far less frequent and could often be foreseen many months ahead so that the lowering of programme affected only those parts of it relating to months far in the future.

The success of the programmes was found to depend on their wide circulation and acceptance, on their relating to the output of particular firms, and to the placing of contracts being directly dependent on the programmes. The efficiency of a programme was greatly reduced if the supplying firms could also produce similar goods for the private market. An essential part of the technique was to programme in great detail those particular components which formed a considerable proportion of the total cost of a weapon.

Alongside of and reinforcing the detailed programmes of the supply departments there were programmes or allocations of imports, raw materials and labour on a more global scale. The detailed allocation of raw materials would be based on the component programmes themselves, but the global allocations of labour and imports and raw materials to the supply departments

were among the most important determinants of the scales to which the departments' munitions and component programmes were drawn up. The way in which high level labour allocations affected the output of munitions is one of particular interest. The influence was mainly indirect via adjustments to the munitions programmes. For example, 100,000 less men might be allocated to the Ministry of Aircraft Production: the effect of this change in allocation would not act through a gradual starving of aircraft factories of labour, but through the loyal co-operation of the Minister of Aircraft Production and the Secretary of State for Air. For they would set their staffs to work out what reduction in the aircraft and component programmes would be necessary to release 100,000 men from the factories and how this reduction could best be afforded. Having reduced the programme and cut the orders, the firms affected could then be induced to release the labour. The global allocations of labour thus acted not as a direct influence but as an indication of policy to the supply ministries.

Of course some attempt was also made to employ the allocation of labour to high priority uses as a direct means of boosting the output of bottleneck items. But experience of this technique was not very encouraging and the main lesson was that although consideration and allocation of labour supply on a global scale was needed in order to avoid confusion, it was useful mainly as an indication of policy and was not very effective as a direct means of control.

With bottleneck materials and components the lesson was very different. Detailed programmes and careful allocation of the output of these were the key to the successful implementation of the production programmes of the essential munitions.

The value of this experience is that it shows that the Government is right in regarding its manpower budget merely as a broad indication of policy to the ministries concerned and to the employers and workers. For effective planning it must then turn to the individual ministries for detailed output programmes showing month by month what is to be produced. In those industries which supply the Government itself, these programmes can go into considerable detail and relate to particular firms. In others, which supply the consuming public, only very broad outlines will be possible. But these programmes must all be framed to agree with the target allocation of manpower, and they can be enforced in detail by allocation of the raw materials, imports and bottleneck components as well as on a global scale by taxation and rationing.

§1 (3). Whilst one may therefore agree with the Government's insistence that the global programmes of manpower and income are to be regarded as indications of policy and not blueprints, and that they require extensive co-operation for their implementation, one is left anxious whether the crucial programmes, namely those relating to particular imports, particular capital projects and the production and utilisation of bottleneck materials, are being prepared with all the speed and detail that is so urgently required. One is

also left in some doubt as to how the government will square its repeated determination to preserve 'the maximum possible freedom of choice to the individual citizen' and 'the essential flexibility of our economic life' and to avoid 'rigid application of controls and compulsions' with its avowed aim of seeing that its own programmes are pressed forward as fast as possible.

2. *Diagnosis of the Situation*

§2 (1). In Section 2 of the Survey, the authors draw a rosy picture of the smooth adjustment of the economy from war conditions in 1945 to peace in 1946. But here and there a note of anxiety creeps in with reference to our international position and to our supplies of coal and manpower, but on the whole all the deep gloom is reserved for Section 3 dealing with prospects for 1947. This gloomy aspect is well summarised in Section 4: 'Conclusions' which ascribes our present and anticipated troubles as due in the following order to shortage of:

- (i) 'coal and power and upon this everything else depends'
- (ii) labour, its low productivity and maldistribution
- (iii) means of payment for our imports.

Which gives the true picture, the rosy description in Section 2 of expanding output, or the alarming indications of scarcity given in Sections 3 or 4? Can we agree with the diagnosis that, in order of importance, our problems are (i) fuel and power, (ii) labour supply and productivity, (iii) foreign exchange?

§2 (2). The degree of recovery achieved by the end of 1946 was certainly remarkable. Despite the very awkward difficulties left over by the war, the general standard of living of the mass of the people was probably back almost to that of pre-war. But we were already faced with some obvious symptoms of danger. The first was that despite imports out of borrowing to the extent of £450 millions¹ in 1946, our stocks of food and raw materials had fallen very low. The second was that wages and prices were rising still at a steady rate despite the retention of rationing and price control. The third was that bread rationing had become necessary and that some dislocation of industry was already apparent as a result of fuel rationing to industrial users. Lastly, there were widespread reports that productivity in manufacturing industry as well as in coal mining and building was down compared to pre-war.

A diagnosis of these symptoms is possible along rather different lines from those in the Survey. The central problem is the difficulty of importing what we need: in the short run this is mainly due to world shortages of goods: in the longer run it is due to a shortage of dollars, a shortage which again is not at all confined to this country. It is owing to these world shortages and to the need for economising dollars that we have had to ration food so strictly and that we have insufficient fuel and timber for our programmes. We may refer to this central problem as the import problem.

Our second problem is that we are faced with the need to maintain greatly

¹ This figure includes the £300 million spent overseas by the Government.

expanded military forces and considerable military expenditure overseas, just at a time when we have started a programme of social reforms and plan to modernise our industry, as well as having to refill the pipe-line of stocks and of civilian goods both in process of manufacture and in the shelves of shops and homes. All this places a heavy strain on the public's capacity to save and lend and to pay taxes to finance this expenditure: the strain is especially heavy at a time when they have available the considerable sums laid by during the war for spending during peace. It results in shortages at the shops and a general upward pressure on prices and wages. We may refer to this second problem as the problem of excess demand.

The third problem, the manpower problem, is that labour has to be switched from war industries to peace industries and that output per head is lower than before the war. This delays the easing of some bottlenecks, *e.g.* coal, and the capture of foreign markets: it also aggravates the problem of excess demand and the tendency for prices to rise. On the other hand hard work is no panacea: *e.g.* greater productivity in luxury industries, unaccompanied by wage increases, might merely swell the dividends paid and the standard of living of the shareholders. Granted that increased production per man-hour is needed in bottleneck industries like coal-mining and building, and in the export industries, it still seems that the White Papers have laid unduly heavy stress on the need for sheer physical effort, and have paid insufficient attention to the world shortages and our own difficulties in earning enough dollars to buy our imports.

Fourthly, there remains the universal problem of poverty, in the sense that we cannot enjoy so high a standard of living as we should like. To this problem the solution required is indeed increased output per man-hour; and this problem is especially pressing owing to our war losses, and it in turn aggravates our three problems of imports, excess demand and manpower.

We have seen that our problems are largely due to shortages of raw materials and dollars which also affect most countries outside the United States. In its turn, the problem of excess demand is partly due to our being committed, like many other countries, to a policy of full employment. That means that the economy may have to be driven with the regulator of Government controls constantly acting to check the motive power of expenditure. To prevent unemployment, expenditure may have to be allowed some tendency to run ahead of supplies: it must be prevented from actually doing so by rationing and allocation, and where rationing does not apply, the inconvenience of buying goods in short supply will automatically check spending. Opinions differ as to the strength of this tendency in a fully employed economy and as to how far direct controls such as rationing will be necessary to prevent these tendencies leading to serious shortages or occasional breakdowns. Few would argue that dislocations like that due to the coal shortage in February last need arise merely from the slight excess demand due to a full employment policy, except at a time of acute world

shortages. On the other hand, if, occasionally, further but less acute shortages of particular goods and grades of labour do arise, these need not be regarded as due to a fundamental defect in the economic system: they may be a necessary price of the virtual abolition of unemployment. But at a time when many material stocks are low owing to world shortages, any attempt to ease controls and push ahead with plans of reconstruction would create really serious difficulties like the breakdown during the cold February weather.

Having diagnosed the economic symptoms as being due to these four problems, namely, the Import Problem, the Excessive Demand Problem, the Manpower Problem and the Universal Problem of Poverty, we may consider each of these problems in turn and in greater detail.

(3). *The Import Problem*

(a) The short-run problem of imports :

§2 (3). We have seen that our immediate difficulty in buying those imports which we need most urgently, namely coal, timber, other bottleneck materials and foods, is not merely that we are short of dollars or other foreign currencies to spend on them but that these commodities are the subjects of world shortages, and are obtainable, if at all, only at very high prices or in exchange for equally scarce materials. Thus, an extra ten million tons of coal, imported and held in reserve by the government would no doubt have saved most of the dislocation and inconvenience caused by the fuel shortage of February 1947, but the coal was practically unobtainable owing to world shortage. Again, the import of several hundred thousand standards of softwood is needed to enable the building programme to get into its stride: but this amount of timber cannot be obtained except by exporting coal to Sweden or by paying very high dollar prices. The dollar cost of the imports needed to avoid bread rationing without risk might have been worth paying, but world shortage made sufficient purchase impracticable.

Thus the fact of world shortages has resulted in a running down of our domestic stocks of vital raw materials and foodstuffs. This running-down of stocks is by no means universal but it extends to a number of key commodities, details about which are given in Table I below :

TABLE I

U.K. Stocks. Number of Weeks Consumption at Rate of Current Calendar Year

Commodity	Coal	Soft Wood	Hard Wood	Steel ¹	Refined Lead	Bricks ²
Dec. 31st	Number of weeks for which stocks are sufficient					
1942	5.7	24	16	8.9	18.1	N.A.
1943	6.0	39	19	8.6	29.6	N.A.
1944	5.8	23	23	7.2	32.0	N.A.
1945	4.5	37	24	5.4	14.4	38
1946	2.9	10	12	4.4	5.8	3.4

¹ Number of weeks production of ingots.

² Consumption rate estimated as Production Rate plus Rate of fall of Stocks.

Source : Statistical digest, Feb., 1947.

Unfortunately no figures of stocks of foodstuffs are published by the Central Statistical Office, but fairly full information is available about stocks

of materials. From these it is clear that there has been no general running down of stocks of materials during the last two years, despite the serious declines in the particular commodities shown in Table I. For example stocks of Textiles have been well maintained and these must form a substantial proportion by value of the total of stocks of all materials listed in the Statistical Digest. On the other hand, stocks as a whole have not been built up as one might have hoped during the last two years. An indication of the manner in which stocks as a whole have changed during these two years is given by the movements of an index number of U.K. Commodity Stocks shown in Table II. For comparison with earlier years, the following Index B was based on figures relating to stocks of a selection of commodities covering in 1945 four-fifths of the value of the stocks covered by the first index.

TABLE II
U.K. Commodity Stocks Index Number (average 1945=100)

End of	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
	<i>Crude</i>											
1945 ...	105	102	99	96	94	95	96	101	102	102	102	102
1946 ...	99	95	92	89	88	87	86	85	86	85	86	85
	<i>Corrected for Seasonal Variations</i>											
1945 ...	103	102	101	100	99	99	99	101	101	100	98	98
1946 ...	97	95	94	93	93	91	89	85	84	83	82	81
End of		1940	1941	1942	1943	1944	1945	1946				
U.K. Stocks Index B		104	95	93	99	102	98	82				

It so happens that the monthly fluctuations in 1945 and 1946 were very similar, so that a crude correction for seasonal variations is possible on the basis of the figures for the two years only. It will be seen that the seasonally corrected index has fallen by about 20 per cent since 1945. We based this index on stock figures for about 50 commodities listed in the Statistical Digest, roughly weighting them to allow for their relative values. But the fall of 20 per cent is not spread over all items and the variation between different groups of commodities is illustrated by Table IIa which shows the movements of various component index numbers during 1945 and 1946.

TABLE IIa
U.K. Commodity Stocks. Component Index Numbers. 1945=100.

	Coal	Timber	Metals	Textiles	Chemicals, Paper Rubber	Leather Skins Building materials	Combined Crude Index	Corrected for seasonal variation
Weight	2	2	3	6	2	1	16	
End of:								
Nov. 1944	142	98	116	95	114	110	108	104
Feb. 1945	101	91	118	97	107	110	102	102
May ...	91	78	102	95	96	102	94	99
Aug. ...	97	101	98	105	100	96	101	101
Nov. ...	105	131	84	105	97	94	102	98
Feb. 1946	67	125	76	106	95	89	95	95
May ...	58	95	65	103	108	75	88	93
Aug. ...	68	48	65	105	117	72	85	85
Nov. ...	76	54	59	95	140	80	86	82

The table illustrates the fact that the fall of stocks is mainly concentrated on the items listed in Table I and in some of the metals whose large war stocks are no longer needed. Great caution should be used in interpreting the figures of Tables II and IIa and the reader should bear in mind the statement in the Statistical Digest that the figures of stocks often relate to only part of the total stocks in the country. (For further details see 'Definitions of Terms and Units', S.O. code No. 63-94-0-1).

Most of our acute shortages can be traced to world shortages and these world shortages are likely to be eased within two or three years and we may then hope to see our own shortages eased also.

(b) The long-run problem of imports.

There will remain the difficulty of earning enough dollars to pay for our imports. This difficulty partly arises from purely British causes which will be discussed below as part of our problems of excessive demand and shortage of manpower, which swell our demand for imports and hamper our production for export. But it is becoming increasingly clear that the import problem is common to most countries outside the United States of America.

The U.S.A. is so predominant in the industrial field that her exports are likely within the next few years to flood world markets and to exceed in total value all that she imports from the rest of the world. The financing of this net flow of goods out of the U.S.A. will create a very difficult situation for most other countries. To some extent they can be paid for by newly mined gold, and to some extent covered by expanding loans by the U.S.A. to other countries. But in so far as these loans have conditions attached to them, other countries are likely to prove reluctant to accept them until the scarcity of dollars is fairly urgent. We may thus expect to see the world shortage of dollars become more and more pressing, with each country using every device to undercut the others in the American market and to reduce its own imports of American goods, either by discriminatory control, or, if this is not allowed, by general trade restrictions and deflationary finance. General trade restrictions and deflationary finance are likely in the end to lead to economic depression throughout the non-dollar countries, and thus a world slump may prove the only effective means of preventing the world from importing too many goods from the U.S.A.

Already symptoms of these impending difficulties are apparent in some figures recently published in the *Economist* which show that in 1946, despite grants and relief payments of 3,400 million dollars, a total of 4,700 million dollars worth of American exports had to be financed by loans and gold movements. This was at a time when there were grave domestic shortages in the U.S.A. as well as in other countries, to reduce the pressure of her export drive. Clearly, the export industries of the rest of the world have a tremendous task ahead in competing with and providing goods to exchange for the greatly expanded flow of export goods which may be expected to come from the United States when her domestic shortages have disappeared.

TABLE III
U.S.A. Balance of Payments, 1946

For	Receipts Thousand	Expenditure Million Dollars
Merchandise	12.0	5.0
<i>Less</i> Interest and dividends due		0.4
Shipping freights, tourists and miscellaneous	2.5	1.8
	14.5	6.4
Difference financed by—		
Net unilateral transfers		3.4
Capital (loans) and gold		4.7
		14.5

Britain's import problem, although aggravated by special causes, is essentially part of the larger problem facing most of the world outside the U.S.A. and the U.S.S.R. the problem that the main determinant of world production is likely to be the United States level of imports.

The White Paper gives the following figures relating to our balance of payments in 1946. We spent £450 millions¹ more than we earned: this deficit was less than had been expected, but was more serious than the bare figure suggests. For our exports were mainly to soft currency areas who could not pay us in dollars, whereas our imports were mainly from hard currency areas and had to be paid for in dollars. Apart from this, the low figure of our imports was obtained only at the expense of keeping the stocks of certain foods and raw materials at the dangerously low levels such as those discussed above and shown in Table I.

(ii) *The Problem of Excessive Demand*

§2 (4). Before the war the difficulties of this country were due to a deficiency in demand: enough was not being spent to keep the population fully employed: people tried to save too large a proportion of their incomes. The problem now is just the opposite. Too much is being spent and people have to be forced and cajoled into saving all that is needed.

The position is complicated at the present time by the existence of 'piled-up demand' in the sense that people wish to spend their accumulated war savings on clothing, furniture, cars, hardware and other semi-durable goods of which they are now going short. The problem of piled-up demand is likely to cure itself gradually if supplies of clothing, furniture, cars and hardware are held at, but not necessarily above, their pre-war levels, and a milder form of rationing is continued so that these supplies are fairly allocated and

¹ This point may be put in the language of Keynes's General Theory. If μ is the marginal propensity to consume out of income (after tax) and T is the proportion of marginal income taxed, then only a proportion $1-\mu(1-T)$ of the marginal output will be available as tax payments and savings to ease the manpower problem. Thus the efficiency in solving the manpower shortage of measures to secure more manpower and greater output person will only be $1-\mu(1-T)$ times what they would have been if there had been no marginal propensity to consume. This point is of considerable importance to-day when many people would like to spend a substantial fraction of that part of their marginal income which is left after they have paid the tax on it.

until people have restored their holdings nearly to the pre-war level. In face of the piled-up demand, the restriction of total purchases of these various semi-durable goods to the neighbourhood of pre-war levels will involve some degree of rationing or other controls for various periods depending on the normal life of the goods concerned. If meanwhile the other general problem of excess demand can be solved, the extra problem of the piled-up demand is likely within four or five years to have dwindled to small proportions even if purchases of semi-durable goods are held at their pre-war level.

In our discussion of the general problem of excess demand, we shall therefore assume that the extra problem of piled-up demand is being dealt with by means of clothes-rationing, utility furniture docketing and diversion of motor-cars to the export market. The only effect of the piled-up demand will then be a tendency to spend part of the accumulated war savings on entertainments and other immediate consumption since the supplies of semi-durables are still partly restricted. This tendency may be quite appreciable and we shall assume below that it will over the next five years reduce 'normal savings' by £200 million per annum.

By 'normal' savings, we mean that part of a person's (or institution's) current disposable income which would be saved apart from special difficulties of buying, restrictions or rationing, on the one hand, and apart from his pent-up shortage of semi-durable consumer's goods on the other. By 'forced' savings we mean the excess of his actual savings (out of current disposable income) over his 'normal' savings. In other words, his 'forced' savings are what he is forced to save by the inconvenience or impossibility of buying certain goods, rationing, savings propaganda, etc., *minus* any special purchases he succeeds in making to restore his war-diminished stock of semi-durable goods.

An important aspect of the national problem of excessive demand is the amount of 'forced savings' which have to be extracted annually from disposable private incomes. For it is in the process of forcing these savings that the annoyances of queues, delays and restrictions of consumer's choice make themselves felt.

One method of reducing the need for forced savings is to cut down disposable incomes by taxation. Indeed it is only due to large increases in taxation that the need for forced savings was kept within manageable limits during the war.

§2 (5). Table IV shows estimates of the proportions which normal and forced savings have during 1938-45 borne to total private incomes after tax.

The estimates of the normal savings percentages are of course very arbitrary. They have been assumed to increase from 9 per cent in 1939 to 11 per cent in 1941, on account of fuller employment, but the redistribution of incomes in favour of the poor is assumed to have reduced it and held it to 10 per cent thereafter, despite the gradual growth of the saving habit and the respectability it has again acquired. In 1945 it has been put down to 9 per cent on account of the pile-up of war savings.

TABLE IV

			1938	1939	1940	1941	1942	1943	1944	1945
			<i>Per</i>	<i>Cent of</i>	<i>Private</i>	<i>Disposable</i>	<i>Incomes</i>			
Total private savings	...	...	8	9	18	21	23	27	26	24
Normal private savings	...	...	8	9	11	11	10	10	10	9
Forced private savings	...	...	0	0	7	10	13	17	16	15

The figures indicate that under war restrictions as much as 15 per cent forced savings is practicable. The maintenance of so high a figure in peace-years would place a very severe strain on the public and we shall see below that the problem is not in fact so serious as to need that.

§2 (6). In order to gauge the need for forced savings in 1947 we should first estimate the probable level of normal savings and compare it with an estimate of the total need for savings.

With full employment, and apart from the piled-up demand, the normal savings *percentage* would probably increase gradually over the next four or five years on account of an increase in total disposable income. But, quite apart from the deficiencies of semi-durable consumer's goods, we have seen that normal savings are likely to be depressed for three or four years by a tendency to spend war savings on entertainments and immediate consumption. On this account, we may put normal savings at only 7 per cent in 1947, and suppose that it will gradually rise towards 10—12 per cent in 1952, if full employment continues and normal supplies of semi-durable goods reappear.

To frame even a rough estimate of the need for total savings is unfortunately impossible. The figures given for 1946 and 1947 in Table V are only intended to convey the orders of magnitude of some of the considerations involved. They should in no circumstances be quoted as serious estimates.

Something approaching an estimate should become possible for 1946 with the publication of the White Paper on National Income 1938-46 which is likely to be on sale by the time that this article is published.

Our figures, for what they are worth, do suggest that there will be an appreciable forced savings problem in 1947.

Our figure of 10 per cent forced savings needed in 1947 may be very wide of the mark, but in interpreting it, the reader should remember that we have assumed that the pent up demand for clothing, furniture, cars and semi-durable goods is at the same time held in check by suitable rationing and controls.

The explanation why an estimated 10 per cent of forced savings is needed in 1947 can also be set out in terms of the major changes in the situation between 1938 and 1947. Working in terms of 1945 (national cost) prices, the changes shown in Table VI.

§2 (7). The interesting speculation which is suggested by the figures in Table VI is that the whole problem of excessive demand could be reduced to small proportions provided :

- (i) that the piled-up demand was taken care of by suitable rationing and

TABLE V

Illustrative figures to show the need for forced savings

	1938	1945	1946	1947 ¹
	£000,000,000 at 1945 national costs			
Personal Consumption	5.4	4.6	(5.2)	(5.3)
Defence	0.5	4.1	(1.5)	(0.9)
Government Expenditure on International Affairs:				
UNRRA, Control Commission	—	0.6	(0.3)	(0.4)
Hire of Ships (non-war)	—			
Other Government Consumption	0.6			
Net Capital Formation Home ²	0.5	0.0	(0.8)	(1.0)
Less Borrowing from overseas	-0.1	-0.8	(-0.4)	(-0.3)
Total National Income	6.9	8.5	(8.0)	(8.0)
Plus National debt interest	0.3	0.5	(0.5)	(0.5)
Other transfer incomes	0.4	0.2	(0.5)	(0.6)
Minus Taxation Revenue	-1.7	-3.1	(-3.0)	(-2.7)
Total Disposable Private Income	5.9	6.1	(6.0)	(6.4)
Less Personal Consumption	5.4	4.6	(5.2)	(5.3)
Total Private Savings	0.5	1.5	(0.8)	(1.1)
T.P. Savings as per cent of T.D.P. Income	8%	24%	(14%)	(17%)
Estimated Normal Savings (per cent of T.D.P.I.)	8%	(9%)	(7%)	(7%)
Estimated Forced Savings (per cent of T.D.P.I.)	—	(15%)	(7%)	(10%)

¹ These figures for 1947 are based on the estimates in the *Economic Survey* which were presumably prepared before the coal crisis. They are, therefore, likely to be over-estimates of actual results in 1947.

² Figures of net capital formation relate to 'Capital and Equipment and Maintenance less depreciation' and cannot be used for comparing the rate at which our capital stock is increasing now as compared with before the war.

TABLE VI

Explanation of the Need for Forced Savings in 1947
Illustrative figures, at 1945 prices

Item of Expenditure or Revenue:	Change 1938 to 1947 £ millions (to nearest hundred)
Expenditure on Defence	+400
Expenditure on 'International Affairs' e.g. U.N.R.R.A., Control Commission, Hire of Ships by Min. of Transport, etc.	+400
All other Government Consumption	+100
Capital Equipment and Maintenance	+500
Interest payments on National Debt	+200
Other Transfer Incomes	+200
Less Government Revenue	-1000
Less Borrowing from overseas	-200
Need for Total Savings	+600
Normal Savings (No change)	—
Need for Forced Savings (None in 1938)	+600
Need for forced savings in 1947 expressed as a proportion of disposable private incomes	10%

controls of cars, furniture, hardware, clothing and other semi-durable consumers goods.

- (ii) that one of the three substantial items in the increase of expenditure shown in Table VI could be cancelled,

The three substantial increases are Expenditure on Capital Equipment, Expenditure on Defence and Expenditure on International Affairs.

The increase in expenditure on Capital Equipment arises from the need to re-equip industry and to build more houses and this item is obviously likely to increase further rather than to decrease during the years following 1947. The increase in expenditure on defence may possibly not prove permanent, but it is difficult to suppose that much reduction in this figure will be realised during the next few years. The item 'International Affairs' represents the most hazardous figure in the whole table, but if it is of the right order of magnitude, this does offer some hope of relief in the years following 1947, for expenditure on U.N.R.R.A., the Control Commission, other expenditure in Europe and on the hire of ships may reasonably be expected to be very much reduced in later years. The inclusion of these items was the result of an attempt to interpret the statement in the Economic Survey that Government Expenditure other than Defence Expenditure would in 1947 be $13\frac{1}{2}$ per cent of the National Income, although it was only 7 per cent in 1945. A careful consideration of the headings under which Government Expenditure on goods and services (not for defence) could have thus almost doubled in two years suggested that the only possible substantial increases were in these categories which we have labelled 'International Affairs'. At first it was supposed that the increase might be due to a gigantic increase in the Civil Service and Government Staffs and of lavish Social Services. But the Survey showed that the Public Service was to have expanded by 1947 only to 2,050,000 from 2,030,000 in June 1945. It also became clear that the main increase in the Social Services would appear under the guise of Personal Consumption (by the beneficiaries of the Social Services) and not under the Survey heading of 'Other Government Consumption'. Altogether, only about £100,000,000 seemed attributable to increases in normal Government expenditure at home between 1945 and 1947, and the other £400,000,000 was ascribed to the various types of expenditure on International Affairs mentioned above.

The alternatives to reduction in expenditure on such items are :

- (i) Increase in Normal Savings
- (ii) Increase in Government Revenue
- (iii) Reliance on continued Forced Savings.

We have seen that there are some reasons for hoping that normal savings will gradually increase of their own accord. Any measures which succeed in increasing the real national income, either by increasing the working population or by increasing real output per person, are likely to increase the total of normal savings at the same time. This point will be further discussed under the heading of the manpower problem.

Increase in Government Revenue can be brought about either by increasing rates of taxation or by increases in the incomes on which taxes are raised : such increases in incomes may be brought about either by more people working or by the output per person being increased so that more income is earned.

Forced Savings can as we have seen be brought about by a variety of means. They may be obtained by careful rationing and price control of most of the goods and services on which people spend money ; and to some extent they may be increased by restricting the distribution of dividends by firms, alternatively they may be caused by allowing such shortages to develop and the prices of luxuries to rise so high that people do not care to spend so much. The choice between these methods of obtaining more forced savings, more normal savings, more government revenue or less expenditure is a matter of policy.

It would theoretically be possible to solve the problem by increased borrowing from overseas, but as we have seen our problem is how to stop borrowing from overseas, and if we succeed in doing this, it will in fact aggravate the problem of excessive demand.

(iii) *The Manpower Problem*

§2 (8). The manpower problem, largely arises from the problem of excessive demand. The total manpower available is insufficient to supply the total demand and the available export market. The over-all shortage of manpower reflects the extent of forced savings and the insufficiency of normal savings. In addition to the overall manpower problem, which we shall consider first, there is the problem of the maldistribution of manpower. It is a truism that the overall manpower shortage can only be cured if forced savings are made unnecessary, either by reducing expenditure under the various headings of Table V or by increasing taxation and foreign borrowing, or else if normal savings are increased. It is only to the extent that they will increase savings and the yield of taxation, that measures such as drawing into industry women and foreigners, or increasing the amount of work done by each man, will ease the overall manpower shortage. Such measures may indeed be very effective in increasing normal savings and the yield of taxation, but it should not be assumed that the extra output obtained by such measures will all be available to close the gap between supply and demand : for to any increase in output there corresponds an increase of income : part of that increase is likely to be spent, and only the remaining part which is paid in taxes and laid aside as normal savings will go to ease the overall manpower problem.¹

Various reasons were mentioned above why increases in manpower and output per man might not operate with full efficiency to ease the overall manpower shortage. These reasons do not apply to any important extent if the extra manpower and effort is applied in the industries such as coal mining, where manpower is a particular bottleneck.

For any extra output in these industries is likely to increase also the output per man in industries which depend upon them. (An eminent economist has remarked that the men who ought to be at work making the materials are employed in factories waiting about for those materials to arrive). Thus the

¹ See J. L. Nicholson, ' Earnings, Hours and Mobility of Labour ', *BULLETIN*, May, 1946.

addition of 1,000 men to a bottleneck industry may, in effect, ease the overall manpower shortage by more than 1,000 men, if the indirect effect on the efficiency of other industries provides more than sufficient extra output to supply the extra consumption induced by the increase in incomes. Any extra output per man in industries supplying an elastic export market will similarly yield a rich dividend, since it will obtain dollars to enable us to import more of the goods which are holding up production.

§2 (9). One effect of the overall shortage of manpower is to aggravate the maldistribution of manpower. At times when unemployment in most industries is heavy, no industry is likely to be held up long for lack of labour. But at times when there is not enough labour to meet all needs, the industries which are especially short of men may have great difficulty in obtaining them.

The present maldistribution of manpower is due to the contraction of the civilian and export industries during the war. The munitions industries attracted labour from textile mills and clothing factories by paying higher wages³ and naturally it is difficult to persuade the workers to go back to earn the lower wages. The effect of the rationing and price-control of the most important goods is to lower the inducements offered to workers making those goods at a time when high expenditure on entertainments and luxuries enables the uncontrolled industries providing them to take on more and more employees.

Thus one of the most interesting questions arising from the Economic Survey is to see what measures will be taken to secure the redistribution of manpower there laid down for 1947.

(iv) *The General Problem of Poverty*

§2 (10). In conclusion, we may consider the general problem that faces every community, that of raising its standard of living and increasing its leisure. In the present circumstances, leisure must receive very low priority, although even now a case could be made out for giving to the retention of a reasonably amount of leisure priority over the import of luxuries and semi-luxuries.

The key to this general problem is to increase the average output per hour of a man's work. This can be done both by improving the efficiency of existing firms and by keeping manpower out of the least efficient firms so that it may be concentrated in the most efficient. This latter possibility introduces certain theoretical considerations. At first sight, it would seem that our aim should be to release as high a proportion as possible of our manpower for those industries such as chemicals and tobacco where net output per man is highest, from those such as textiles and agriculture where net output per man is lowest. The reasons for not following such a policy in 1947 are that it would aggravate our import problem by hampering our export trade in textiles, it would aggravate our excess demand problem because of the need for capital extensions in the industries with high output per head, and it would aggravate our manpower problem by introducing further needs to

shift manpower between industries. On top of these difficulties, it would be found that the value of the high net output per head of the expanded industries would fall with its price, when the expanded output was thrown on to the market. Similarly the value of the low net output of the contracted industries would rise when their sales were reduced.

But in planning for the next five or ten years, the desirability of some expansion of the industries where net output per man is high at the expense of those where it is low will become an important consideration. To take this consideration into account will be a difficult matter: for in a world where prices have to be fixed and goods rationed, where some currencies are hard and others soft, and where competition is never perfect and poverty still found alongside plenty, the market price of a man's net output gives but a rough indication of its value to the community.

3. *The target for 1947*

§3 (1). The Government's plans for the use of civilian manpower in 1947 are summarised in Table VII.

TABLE VII
Distribution of Manpower

	Thousands		Increase per cent
	Dec. 1946	Dec. 1947	
Coal Industry	730	770	5
Public Utilities	258	275	7
Transport	1,373	1,370	0
Agriculture and Fishing	1,081	1,120	4
Building and Civil Engineering	1,250	1,300	4
Building materials and equipment	628	650	3
Metals and Engineering	2,811	2,840	1
Textiles and Clothing	1,405	1,475	5
Other Manufactures	2,186	2,225	2
Distribution and Consumer's Services	4,270	4,325	1
Public Service	2,130	2,050	-4
Total Civil Employment	18,122	18,400	1.5

The changes indicated are conspicuously small in relation to the changes of 20 or 30 per cent that were frequently achieved within 12 months in large industries such as 'motor vehicles and Aircraft' during the 1930's.

§3 (2). In reading the Economic Survey's pronouncements on priorities, one is reminded of an after-dinner speaker¹ who is careful to pay a compliment to every guest present. A careful reader² can find that high priority is to be given to: Coal, power, transport, steel, other basic industries and services, textiles and other consumption goods and services, manufactured goods, export goods and services, raw materials, capital equipment, shipping, shipbuilding, agriculture, building, building materials, defence and public services; and that the following are major objectives: Increase of labour force, increase of output per man-year, redistribution of labour, reduction of costs and prices, maintenance and raising of the standard of living, pre-

¹ Or to take a more commonplace analogy—of a caucus race.

² I am indebted to Mr. S. Moos for elaborating this point in a paper from which the lists here given have been copied.

servation of democratic freedom and free choice, short-term gains and full employment.

The variety given in this list need cause no serious alarm for it is natural that a White Paper should thus come out in a rash of good intentions. During the war, new names had constantly to be invented to denote super-top-priority because each successive super-top class filled up so rapidly with an excessive list of items; and no doubt the same process is still at work. The choice of priorities is so largely a matter of judgment and political policy that no further discussion will be given here. But the importance of this aspect of the subject cannot be ignored in framing policy, and it is to be hoped that in the course of the next few years economists as well as administrators and politicians will contribute to the discussion of the principles which should govern the framing of priorities.

D. G. CHAMPERNOWNE.

BRITAIN IN TRANSITION

OUTPUT AND FINANCIAL POLICY

I. EXCESS DEMAND AND THE CONTROL OF INFLATION

The concept of involuntary unemployment is not difficult to grasp. After all, the unemployed are there. Moreover, if they stay there long enough reasonable people are prepared to reject the theory of the perversity of the unemployed man, and embrace a theory of unemployment based on the deficiency of effective demand. The concept of over-employment is more difficult. It is none the less essential to the understanding of the present economic situation. An appeal to the war-time experience is perhaps the best approach.

In war the need for manpower for the Services and for industrial production for their supply is in the strict sense insatiable. The limit is set by the maximum physical effort of the whole nation and by the necessity to retain manpower to provide essential services and to provide at least a subsistence for the whole population, whether employed in the Services or in industry or not gainfully employed at all.

The actual mobilisation was achieved by a combination of monetary and non-monetary measures. Government expenditure on the Services and on war weapons was expanded, while heavier taxation was designed to limit non-war expenditure. In theory taxes might have been made sufficiently heavy to reduce every individual's current disposable income to the required subsistence level, i.e. to the 'permitted' output of consumer goods and services valued at their current prices. In practice this policy was not pursued, for three principal reasons :

- (1) It would have been further necessary either to block past savings in all forms or to introduce a scheme for rationing all current expenditure for the duration of the war.
- (2) Real resources were in different degrees convertible to war production and some not at all. Nothing was to be gained by rendering idle inconvertible resources.
- (3) The valuable incentive of money incomes, even though these incomes might increasingly become post-dated, would have been sacrificed.

Thus, although direct taxation was increased substantially, and there were also considerable rises in indirect taxation (larger than the increase in subsidies to foodstuffs and other necessities), there was still left at the disposal of individuals an income substantially in excess of the subsistence supply of consumer goods and services at current prices.¹ The power of this income to compete with the war sector for real resources was, however, strictly limited by direct physical controls of imports, raw materials, factory space, machine tools and labour, in addition to a number of secondary controls. The supply of consumer goods and services became fixed and inelastic. The remaining 'problem' of the war economy was thus the dis-

¹ More exactly, at prices ruling at the beginning of the period.

tribution between persons of this limited supply. This is the essence of the problem of inflation, a concept which is becoming increasingly vague and whose dangers are not always clearly understood. One solution to this excess demand for consumer goods and services might seem to be to have allowed the price mechanism to work freely. All prices would have risen, those of the scarcest goods most, and an equilibrium would have been found. This simple solution could not, however, be accepted. It would in fact have meant distributing the consumer goods merely according to the length of the individual purse. As a result real wages would have fallen. And for this very reason the equilibrium could not long be maintained, for the pressure to raise money wages in an attempt to restore real wages would have become irresistible. In a situation of this kind where the Government is determined not to allow any increase in the supply of consumer goods and services, there is no equilibrium at all: there is simply a process of successive rises of prices and money wages. Hence the argument for extensive price control and for stabilising the cost of living by subsidies. Once this could be done there would be no further fall in real wages and the self-stimulating upward movement of prices and money wages might be checked. To stabilise prices, however, still left open, indeed kept open, the gap between demand and supply, and, if no further steps had been taken, stocks would have run down, shortages appeared and distribution would have become haphazard. Neither of these disadvantages would appear in sectors where rationing was introduced. For now in those sectors demand was effectively reduced to the supply at ruling prices and a rational distribution of goods, whether equal or on a differential basis, became possible. If rationing and price control had become universal the excess money demand problem would have been completely solved for the time being, the excess appearing as forced savings. In practice rationing and price control were not universal, and certain sectors of the economy were left relatively free, although the supply in these cases was strictly limited and generally diminished. A substantial inflation in these sectors did in fact appear, but its ill effects from the point of view of uneven distribution could afford to be ignored. To some extent these ill effects were modified by very heavy purchase tax on luxury articles. In any case the rationing and price control was sufficiently extensive to lead many people to prefer to save the money they would otherwise have spent on the goods denied them.

(i) *The Components of Excess Demand*

There thus appeared a large and growing piled-up demand for durable goods which by the end of the war had reached very substantial proportions. It is this piled-up demand which dominates the present economic situation.¹

¹ The present magnitude of the piled-up demand is difficult to estimate. Mr. Kalecki estimated that by the end of the war the piled-up demand for durable and semi-durable consumer's goods would be £1,200 million at 1938 wholesale prices (*Bulletin*, Vol. 6 Nos. 16 and 17, 1944, p. 274), i.e. of the order of £2,500 millions at 1945 retail prices. The amount of this piled-up demand worked off since mid-1945 cannot have been great. Indeed the process of piling up may well have continued.

[Continued on next page]

If we imagined for a moment that this piled-up demand did not exist at all, it would still remain true that our present problem would be one of excess demand—or over-employment—in the sense that the desire to spend out of current income would exceed the supply of consumer goods and services which is possible with present productivity and assuming that the increase in exports, home investment and Service expenditure were to continue according to plan. It seems that the *Statement on the Economic Considerations affecting relations between Employers and Workers*¹ has in mind this current excess demand when referring to the £7,000 million of incomes chasing £6,000 million worth of consumer goods and services. This formulation is misleading because no reference is made to whether the £1,000 million gap is more or less than people would voluntarily wish to save out of their disposable income in the current year.² But this is a small point; for even if the gap were to be closed by voluntary saving there still remains the piled-up demand which for the moment we have set aside. The effect of this is that, however much we attempt to reduce expenditure out of current income, our attempts will be defeated by dissaving from the piled-up demand. Since the matter is of such importance a physical analogy may help to bring it home.

The piled-up demand may be likened to the level of water in a tank. Into the top of the tank the flow is the rate at which people would normally wish to spend out of their disposable income. At the foot of the tank there is an outlet through which the rate of flow is the rate of current expenditure. If people are trying to spend at too great a rate out of current income, and if at the same time the outlet is firmly controlled by means of rationing and price control, then the level of the water in the tank will tend to rise and the pressure on the controls will increase even further. After some five or six years of restricted consumption, however, the level of the water is not likely to rise very fast because the rate of evaporation tends to increase the longer the water stands in the tank. For example, for durable goods whose length of life is not very great, say three years, a maximum to the piled-up demand may already have been reached. The fact that we have been denied full stocks of clothing for a very long time does not mean that we shall wish to

'To get all we want,' says the *Economic Survey*, 'production would have to be increased by at least 25 per cent.' This means an increase in the real national income of some £2,000 to £2,500 million at current prices. But it is not clear whether the authors mean that 25 per cent increase in production would wipe off the piled-up demand in one year. We only quote this figure as an indication of the order of magnitude of the overall manpower deficit, or the excess demand.

We concentrate in this article on the piled-up demand for consumer's goods only. There is, of course, also a substantial piled-up demand for investment goods. The control of the inflationary effects in the capital goods sector is, however, probably easier to maintain for a considerable time. Moreover, it seems likely that, so long as companies pursue or are persuaded to pursue conservative financial policies, little of the investment piled-up demand will spill over into demand for consumer's goods.

¹ Cmd. 7018, 1947.

² *The Economist* (March 8th, 1947) further confuses the issue by asserting that the £6,000 million includes investment goods also. The National Income White Paper, Cmd. 6784, 1946, gives 'Personal expenditure on consumer's goods and services at current market value' as £5,335 million and £5,634 million in 1944 and 1945 respectively. The £6,000 million is presumably a preliminary estimate of the rate of expenditure during or towards the end of 1946.

carry larger stocks than before the war, once supplies become available. On the other hand it can be seen that even if the inflow into the tank is reduced to a mere trickle, the pressure on the outlet will still remain. Thus those who hope to eliminate the excess demand by attacking current income and expenditure alone misconceive the problem.¹ Either we should attempt to get rid of the whole piled-up demand at one blow, or we should accept the fact that this excess demand will be with us for a considerable number of years and attempt to work it off in a systematic and orderly way. But although it may not be possible to solve the problem immediately, this is not to say that we should not try to work it off as quickly as is compatible with orderly progress. Any reductions of demand, whether current or piled-up, which do not damage incentives, and any increases in supply, obviously bring nearer the time when it will no longer be necessary to hold the water in the tank in check with elaborate controls which people feel to be restrictive and repressive. We now turn, therefore, to a consideration of various policies which are currently recommended for dealing with the excess demand.

(ii) *Inflation*

There are few who advocate directly the immediate abandonment of rationing, controls and subsidies to the cost of living. But there are many who insist on the need to restore the price mechanism by setting aright the distorted structure of costs and prices, by which they generally mean the elimination of distortions introduced by subsidies, though not, it appears, of the rather larger distortions of indirect taxation or the equally important distortions due to market imperfections. Is the policy of outright inflation a feasible one? If it went far enough—and the magnitude of the piled-up demand ensures that it would go a pretty long way—the piled-up demand itself might be rendered valueless in, say, two years, when prices had risen to many times their present level. But this is the only problem that it would solve. In principle it might appear that some of the bottleneck difficulties would be eliminated because prices in these sectors would rise fastest, but it is most doubtful whether under present conditions mere price stimuli would be sufficient to bring about the necessary redeployment of manpower to overcome them. It is significant that in 1944–45 in the liberated countries of Western Europe the substantial inflations did little or nothing to eliminate the bottlenecks in the economies of those countries, and the phenomenon of inflation accompanied by widespread unemployment was to be seen. The external difficulties are also considerable, because the essence of this solution is that the internal inflation is uncontrolled. This requires complete freedom to devalue the currency externally, a freedom which we no longer retain. Moreover, once the ‘healthy purge’ of the inflation had gone on for some time a new attempt at stabilisation would be necessary, and there is no record of a stabilisation which has not shown ultimately three undesirable results: (1) the stabilisation itself has required a considerable

¹ *The Economist*, 15th and 22nd March, 1947, commenting on Mr. Hawtrey's excellent statement of the problem.

reserve of unemployment to start off; (2) real wealth has been found to be highly concentrated in the hands of a very small class of people whose selection has been according to ruthlessness and strategic positions to exploit the inflation itself; (3) it has been found that the professional and salaried classes have been largely ruined. It is hardly necessary to reject outright inflation as a solution, even when by the most astonishing inversion this policy is called deflation.¹

This is not to say, however, that no increases in prices ought to be permitted, or for that matter that no decreases in prices should be permitted. We shall discuss later² the extent to which the price mechanism can be used in particular directions at the present time. But what does follow is that no abandonment of the policy of stabilisation of the cost of living under present circumstances ought to be considered for a moment. Nothing is to be said for pursuing desperate policies simply because they are desperate.

(iii) *Dear Money*

It has been suggested that our present difficulties would be alleviated if the policy of cheap money were abandoned. This is in accordance with orthodox theory of the role which may be played by the rate of interest. There are two ways in which a change in the rate of interest may affect demand. The first is through its influence on the rate of investment, and the second on consumption expenditure. Would the raising of the long-term rate of interest with a view to reducing total private investment be of any help in the present situation? This is more than doubtful. Quite apart from the fact that current investment is far more effectively controlled and limited by direct licensing of building and allocations of materials, present profit expectations are very high and a very substantial rise of interest rates would be necessary to choke off any investment at all. Moreover, as is insisted by the very advocates of this policy, the effect of partial price control has been to render production of non-essential goods and services more profitable than essential production. High interest rates might indeed discourage to some extent investment in the cotton industry, but this would simply mean that the Board of Trade would have to offer a somewhat larger subsidy to investment in modern plant in that industry.

In the case of consumption the argument is that the lowering of interest rates has discouraged saving out of current income, and the concomitant rise in prices of securities has led many wealthy people to feel themselves very much richer and accordingly able to indulge in excessive consumption expenditure out of capital gains.

Whether the supply curve of savings (out of a given income) is actually backward sloping is uncertain: but its elasticity is almost certainly low. The spending out of capital gains is probably a more significant phenomenon, although it is difficult to estimate its magnitude. When it is a matter of heavier taxation on higher incomes, for example, it is commonly maintained that the

¹ Cf. *The Economist*, March 15th, 1947.

² See p. 80

reductions in luxury expenditure which would follow are not significant. Be that as it may. If the capital gains are causing excessive current expenditure, it would seem more reasonable to tax the gains¹ than to expand substantially pure *rentier* incomes which, besides being purposeless, would probably require a higher rate of direct taxation to finance them and so aggravate the so-called incentive problem.

A third argument for dear money is that it would check an otherwise inevitable outflow of capital which would aggravate the already extremely serious balance of payments difficulty. Formally there exists a direct control over foreign capital movements. But, it is argued, there will be a constant leakage through various legal and illegal channels. Of the efficacy of the exchange control under conditions of full convertibility for current transactions we may have no means yet of judging, but it is undoubtedly reasonable to suppose that it will prove difficult to prevent all capital leakage. But we should not ignore the different possible motives for capital export. If it is simply a matter of seeking a higher rate of return, then a dear money policy would prove of some assistance. At present the advantage to be gained by such export, costly as it must be to carry out, is small so long as the only alternative 'safe' centre for funds is a market where interest rates are also low. But it is by no means certain that the sole motive, or even the principal motive, for capital export is the small additional interest which might be obtained. Other considerations based on differences in rates of taxation and on broad estimates of future economic and political developments in this country and the United States far outweigh any such slight differences in market rates of interest. On balance, therefore, there seems little to be gained by abandoning the policy of cheap money.

(iv) *Government expenditure and taxation*

Any reduction of government expenditure which represents claims on resources which could be spared for more productive use is to be desired. The most obvious field is that of military expenditure. It is not within the province of the economist as such to judge the rights and wrongs of particular policies, and the military expenditures which they involve. But it is, perhaps, within his province to insist that military expenditure should not be treated as a datum to which the rest of the economy has to be adjusted, which is the impression given by the *Economic Survey*, but should be treated as an integral part of the planned expenditure of the whole nation. Equally reductions in private expenditure, which do not at the same time reduce incentives are also desirable, although, as we have argued above, they cannot be made on such a scale as to eliminate the excess demand. There is one qualification to this. It is conceivable that the excess demand could be abolished at one blow by a confiscatory capital levy. It is conceivable, but it is impracticable. In what follows, therefore, we put out of mind altogether any idea of eliminating the excess demand in the near future and concern ourselves only with

¹ Cf. our proposal below for a capital tax in connection with the piled-up demand.

measures to reduce its pressure, bearing in mind the necessity to work off the accumulated demand rather than to allow it to continue to rise.

(a) *Direct Taxation.* An increase in the standard rate of income tax would have some effect on current expenditure. This goes without saying. What are the disadvantages? In the first place it may reduce the incentive to current effort. As has been argued by Mr. Balogh,¹ the effect of higher direct taxation on effort is by no means uniform, but there can be little doubt about its adverse effects at the margin on wage earnings which fluctuate according to the output of the individual worker. But an increase in the standard rate accompanied by a raising of personal and earned income allowances might well have an overall favourable effect on production while still yielding some net increase in revenue and thus some small net reduction in current disposable income. A second objection is that a higher standard rate will increase still further legal and illegal tax evasion, particularly by individuals who are able to cover a substantial part of their personal expenditure by writing it down to the expenses of a firm or institution. This is undeniable. But it is possible that after the pressure on the Inland Revenue Department is released by removing some millions of wage earners from the tax-paying income range greater attention might be given to preventing such evasions. Thirdly there is the possible effect on the inducement to invest. Again there can be no denial of this effect in principle. Whether in practice, with a seller's market confronting almost every firm for many years to come, a somewhat higher standard rate would choke off any investment which would otherwise take place (given that already a substantial amount of potential investment is being prevented by direct controls) is less certain. On the whole one would have thought that under present circumstances there was little danger of this. If instead of higher income tax an annual capital tax were imposed, this possible unfavourable effect on investment would be even less.² But, it may be asked, would an annual capital tax have any result in reducing the excess demand? The answer is that under present circumstances it makes no difference whether we try to reduce current disposable income leaving the piled-up demand unaffected, or reduce piled-up demand leaving current disposable income unaffected. To return to our physical analogy of the tank, the pressure of expenditure at the outlet from the tank is a function of the level of the water in the tank itself.

(b) *Indirect taxation and subsidies.* It is argued that none of these difficulties would arise if indirect taxation were to be increased or subsidies reduced. (Since we are considering the excess demand problem it is more convenient to treat subsidies as negative indirect taxation than to consider a reduction of subsidies merely as a form of reduced public expenditure). The immediate effect of higher taxation or reduced subsidies is to remove some purchasing power. But we must consider any further repercussions. If the taxation falls on necessities (in the case of removal of subsidies this is bound to be so), the

¹ BULLETIN, Vol. 7, No. 10, 1945.

² Cf. M. Kalecki, *Economics of Full Employment*, ch. 2.

cost of living will rise, and, quite apart from agreements which contain a cost-of-living clause, there is bound to be a rise in money wage rates in proportion. The result is therefore that no reduction of excess demand is achieved, all incomes are pushed up in roughly the same proportion as the cost of living. Moreover, the initial impetus may be enough to start a cumulative upward movement. There are indications that in the course of 1946 and early 1947 the Ministry of Food and the Board of Trade have begun to relax the control of prices of essentials, although so far the effects of these relaxations are hardly reflected in the index number itself. It is of the utmost importance at this time that this policy should be carried no further. If we look at the course of wage rates since 1938 we find a steady almost linear increase throughout the war period; immediately after the end of the war the rate of increase became somewhat sharper, but in the course of the last nine months there have been indications of a substantial slowing down in this rate of increase. There is the possibility that if the cost of living is firmly held, and if trade unions can be convinced that it will continue to be firmly held, the tendency of money wage rates to rise faster than productivity will disappear.

If, however, the whole question is thrown open again at this stage, the consequences will be disastrous. From the inflation point of view, in the sense of the rate at which prices are increasing, the situation is in a sense explosive and needs only a touch to set it off. Once the public take the view that a given rise in prices will lead to a greater (proportionate) rise in future prices, there will be a flight into goods which will make stabilisation impossible. But there would be a second and equally unfavourable result. As we shall argue later, the drive to increase production and productivity depends very much upon the positive part which might be played by the trade unions. There is still a strong tradition in the British trade union movement that problems of production and efficiency are the exclusive concern of management and that the function of a trade union is simply to ensure the best wages and working conditions possible by means of collective bargaining. There is, however, a growing tendency among the more far-sighted trade unionists to insist upon the importance of methods of organisation of production and on the need to increase productivity per man-hour. Any abandonment of the stabilisation policy would mean the overwhelming of these progressive trade union forces in a new bout of orthodox campaigns for wage increases.

The scope for indirect taxation is therefore limited. It may be imposed, and should be imposed, on luxuries and indeed upon any goods and services which do not enter to any substantial degree into the cost of living. And it can only be used in the latter case if offsetting price reductions can be achieved for other goods also entering the cost of living. There is some possibility for such price reductions in a certain number of commodities where monopolistic practices are well known. In view of the unreliability of the present cost of living index the best policy would seem to be to establish a new list of foods and essential consumer goods the price level of which would continue

to be effectively stabilised by price control and subsidies. In the remaining field indirect taxes should be imposed not necessarily uniformly, for as we shall see below, a flexible policy of indirect taxes may assist the required deployment of manpower.

(c) *The role of rationing.* As we have already said above, mere price control does not ensure a rational distribution of the goods concerned. For this, rationing is also necessary. A logical solution would be to include all items which come under the new stabilisation policy within rationing schemes, and thus establish a definite line between necessities and luxuries, directing the excess demand towards the latter and then creaming some of it off by means of indirect taxes. This is without doubt the ideal solution but it raises the awkward problem of additional manpower required for administering more extensive rationing. One small contribution might be made to this by abolishing petrol rationing and substituting instead a very heavy petrol tax and transferring the manpower so released to running, for example, a scheme of rationing domestic fuel consumption. Since it is unlikely, however, that a comprehensive rationing system will be adopted, a corresponding limitation is imposed on the Chancellor of the Exchequer in further increasing indirect taxation.

It follows from the above discussion that the contribution that the Chancellor can make towards reducing excess demand by fiscal means is relatively slight. It may well be that in the financial year 1947-48 a higher standard rate which more than compensates for the raising of personal and earned income allowances, and higher indirect taxation on items not entering the cost of living, might balance his budget or even lead to a budget surplus. Such a result may give satisfaction to those who believe in orthodox finance. That is very nearly the limit of its achievement. We cannot insist too strongly that while any reductions in the excess demand are desirable, the fundamental problem of the piled-up demand still remains.

II. MANPOWER DEFICIT AND PRODUCTIVITY

The scope of fiscal and monetary policy to reduce the excess demand is limited.¹ The danger is very great that tax increases will, through the unfavourable effect on effort, abolish the very incomes which are to be taxed. It is equally true that even substantial increases in output will not close the inflationary gap in a short time. Nevertheless, a drive to increase production is the most hopeful method available for reducing excess demand and easing the economic situation. Following the argument of the authors of the *Survey* we shall discuss first the problem of raising output by increasing the working population, and secondly the question of obtaining a greater output from a given labour force.

(i) *Manpower Deficit.*

An inflationary gap is by definition equivalent to over-employment. If

¹ Since this is so, wage increases in bottleneck industries should not be opposed simply because their *immediate* effects is to increase excess demand, if their ultimate effect is to increase the output of scarce products which, in turn, permits an increase in total output and a reduction in the excess demand.

more resources were available at home, they would be employed under these conditions. And the White Paper is right in asserting that extra employment would reduce inflationary pressure, even if it were distributed proportionately over all industries. No doubt it would be even better to attract the extra manpower into the bottleneck industries. But it is important to distinguish the maldistribution problem¹ from the problem of over-all shortage of manpower. Assuming, then, that extra manpower is distributed evenly over all industries, will it reduce the inflationary gap?

Extra labour drawn from those 'not gainfully' or 'unproductively' employed will add more to output than consumption. Before they entered industrial employment, they were consuming without adding to the National Dividend; they may consume more when they are industrially employed, but not as much more as they will produce. Even if the marginal propensity to consume of the additional labour force were unity, not the whole extra output would be consumed.² The share of wages in the National Income is about 40 per cent, and it may be assumed that non-wage incomes will rise roughly in proportion to wage incomes, while the quantity of non-wage factors will not change significantly. Some of that non-wage income will be saved, part of it in the form of undistributed profits. Furthermore, if this assumption did not hold good and the extra output due to additional employment were fully consumed (i.e. marginal propensity to consume out of current income of community as a whole equal to unity) inflationary pressure would be reduced. As a result of the extra output the nation would be so much better off; there would be more goods per head of population, thus enabling people to replace or increase their stock of durable goods. This re-stocking would diminish the backlog of demand and thus reduce eventually the propensity to dissave. In other words, improvements of supplies will, by narrowing the gap between pre-war and present stocks and standards, ease inflationary pressure.

A transfer of men from the Forces to industry would have a double effect of adding directly to output and of freeing resources, hitherto employed in supplying the Forces, for civilian production. Their total current consumption in civilian life will, if anything, be smaller than it was in the Forces. Such a reduction of defence expenditure will decrease the government's claim on goods and services, which (formally) do not add to the material welfare of the country, and thus enable the private sector of the economy to make use of these resources for the production of marketable goods and services. Demobilisation reduces inflationary pressure more than the mobilisation of an equivalent number of women for industry.

Imported workers, evenly distributed, will make a smaller net contribution than home workers, if their employment requires non-recurrent capital expenditure (housing, furniture, etc.) and if their propensity to consume and to import³ is higher, as it well might be. The net contribution of imported

¹ See Section III below.

² See Mr. Champernowne's article, p. 65.

³ In which we include remittances, which will in effect be dollar remittances.

workers will be the greater if they replace other foreign labour, such as prisoners of war in agriculture, for whose maintenance we cease to be responsible, or if the imported workers have hitherto been partly or wholly maintained out of British funds, e.g. U.N.R.R.A. contributions. If imported labour can be directed into undermanned industries, its net contribution will be greater, because it will add not only to the output of these industries, but by increasing the flow of bottleneck-goods speed up production in other industries.

(ii) *Output per Man-year and Incentives.*

The *Economic Survey* is emphatic on the need for more output per man-year, and stresses mainly greater individual effort and better attendance, suggesting as one of the main methods to achieve this end the wider application of incentive payments and the postponement of shorter hours, unless 'these can be shown to increase output per man-year'.

Evidence on the quantitative effects of various forms of incentive payments is scanty. There is a general presumption that when they are introduced by consent they will tend to raise productivity sharply for a more or less lengthy initial period, provided taxation does not reduce marginal net earnings. It is not unlikely that they will produce a net gain in productivity in the long run, but no case studies seem to be available which show this long-term net effect, after making allowance for changes in technique or capacity utilisation. This is not to question the likelihood of long-term effects; industry should be encouraged to experiment with payment by results, though one should bear in mind that the introduction of such schemes has frequently led, in the past, to industrial unrest. Statistics showing the proportion of workers in manufacturing industry on piece rates or on other forms of incentive payments are not readily available, and manufacturers very often do not know what incentive payments have given satisfactory results in other firms; though they are mostly aware of the fact that successes in one firm do not necessarily guarantee success in all firms.

Payments by results are introduced more easily and produce more lasting results where labour relations are good. Any improvement in industrial relations, which individual firms can bring about, is likely to yield some increase in productivity and may in many cases be a pre-condition for a successful operation of a scheme of incentive payments. If the Ministry of Labour or the Board of Trade, backed by the Trade Unions, can make substantial headway during the year in inducing manufacturers to improve industrial relations and to introduce, by consent, systems of incentive payments, the resulting increment in the National Income may well be greater than that to be contributed by the 100,000 men and women which the Government hopes to draw into industry. But progress in the revision of methods of payment is bound to be slow and should be supplemented by other methods designed to raise productivity.

It has been argued in a previous section of this paper that the Chancellor of the Exchequer could help to restore incentives by altering taxation in such

a way that the incentive to extra earnings of the great mass of the workers is not diminished by burdening the marginal income with higher rates of taxation. Whether this should be done by raising the personal and earned income allowances or by other means we need not discuss here.¹

There is, however, one aspect of the incentives problem which needs discussion. If incentive payments or tax reductions increase earnings more than supplies made available to the home market, it becomes important to make marginal earnings which cannot be spent on goods immediately (savings) more attractive to the working and lower middle classes.

During the war, savings campaigns served a useful purpose, though their net contribution must not be over-rated. In any case, their appeal is now wearing a little thin. It is unlikely that higher interest rates will increase the willingness to save of the working class which in the past did, or could, not take a long view and develop saving habits in the same way as the middle classes. Post-war credits, though much suspected and depreciated, were an interesting form of enforced saving which again cannot easily be applied in a peace-time economy. But it should not be impossible to adapt the concept to the reconstruction period by using what may be called a system of instalment purchases for deferred delivery. It is, generally speaking, easier to save for a definite purpose than to save for an uncertain future. Would workers try to earn more if they were given an opportunity to earmark their unspendable extra earnings for specified types of durable consumer's goods, e.g. motor bicycles, furniture, refrigerators, etc., to be delivered at fixed prices one or two years hence? If local experiments were to show that the answer is positive, then a scheme might be devised to make 'delayed buying' attractive by suitable price guarantees, if possible, below present prices, and a point system of delivery priorities to fit in with other commitments.² This is necessarily a vague suggestion but it illustrates the point that we have so far not really troubled to make extra earnings which cannot be spent immediately on goods and services, i.e. forced savings, attractive for the low income groups.

(iii) *Changes in Productivity.*

Productivity is lower in important industries, such as building and coal mining, and higher in agriculture than before the war, but the *Survey* leaves us in the dark about the changes in productivity in the main field of manufacturing industry. This is a most serious gap in the diagnosis. Admittedly, measurement of productivity is difficult: But was it really impossible for the greatly increased research staff of the various Departments to provide a rough estimate of the changes in productivity in the main sectors of manufacturing industry since 1938 and since the end of the war, and the way in which transfers of workers from war industry to peace-time pursuits has affected overall productivity? If we are to know where we stand and in what

¹ See Section I of this article.

² Such commitments can, of course, only be undertaken if output and distribution are planned accordingly, and if productivity is raised by methods which we shall discuss below.

direction we are moving, the Government and the general public must have more adequate data on productivity trends. The postponement of the Censuses of Production and Distribution, which the President of the Board of Trade has permitted under the pressure of the fuel crisis, will deprive the Government still longer of information which is essential for a true appreciation of the economic situation without which policy making becomes groping in the dark.

It is even worse that the *Survey* does not give an analysis of productivity policy and is, generally speaking, content with hopeful exhortations. Given the workers' effort per year, productivity depends on the amount of power and specialised equipment per worker, the degree of utilisation of equipment and the length of the run of production of a particular commodity. Of this we have abundant evidence from international comparison of productivity, from our war experience, from British economic history of the nineteenth century, and, especially in the case of specialisation, from Adam Smith.

Since the end of the war we have acted against these elementary principles over a wide field of industry, and it is hardly an over-statement to say that a major factor in the loss of potential and actual productivity during the last 18 months has been the policy of the Departments themselves, particularly of the Board of Trade. The speed with which the Government has allowed industry to return to the easy-going and profitable differentiation of products, spread in small batches over equipment, which under these conditions cannot give optimum results, is probably as great after this war as it was after the last. Manpower has gone into multiplication of designs, wrappings, and the salesmanship associated with it, machinery runs have been curtailed and equipment has been deconcentrated, with the result that with a given equipment we seem to be less productive now than we were before.¹

There can be little doubt that specialisation of firms, the re-introduction of utility schemes, and in certain cases the effective concentration of whole industries could gain us the equivalent of several hundred thousand man-years output in 1947 without much addition to capital. Here again the Departments, and particularly the research staffs of the Departments, have served us badly. Not an ounce of information has come out of the Departments about the reduction in real costs achieved by utility schemes or by bulk purchases. From non-official sources one hears again and again that cutting down varieties and modest specialisation between firms has increased physical output per head by 20, 30 and 40 per cent. Some losses were without doubt

¹ There are numerous examples of government-sponsored product differentiation and multiplication of designs, and the effect of this policy on productivity appears to have been harmful in most cases. Often the relaxation of war-time restrictions on style was followed immediately by an increase in prices. For instance, the removal of the austerity restrictions for women's utility dresses and unlined costumes resulted in a 15 per cent increase in the controlled maximum prices; and this case is typical of many. Fountain pens provide an interesting example of product differentiation. In April, 1946, it was announced that 'seventy-nine new models have been added to the Schedule of fountain pens,' and some increases in price in existing models have been made by a new Order. . . . This Order contains a revised Schedule listing 155 models altogether. . . . (B.O.T.J., April 13th, 1946).

inevitable in the switch-over; others could have been avoided, had the Departments made an attempt to measure the man-year losses through 'variety' production.

There may be reasons why the public should not be given a balance sheet of gains and losses through standardisation and de-standardisation in individual British industries. But there can be no reason at all why, among the vast amount of publications of the Board of Trade on German industry, we should not be given an analysis of the efficiency drive in the German economy after the bombing offensive had started in earnest. How shrinking equipment and dwindling industrial manpower could be reorganised to yield a greater output would teach as valuable a lesson as the publication of purely technical details of equipment and processes. What is important is that the Departments and the general public should obtain some quantitative estimates of the economies of utility and intra-industrial specialisation schemes. Substantial productivity increases in some major industries may more than offset declines in others, and even if on balance overall productivity rises by only two per cent, this would be equivalent to three times the Government's contemplated increase in the number of man-years.

(iv) *Democratic Planning and Freedom of Choice.*

Why then do the authors of the *Survey* not discuss these methods of raising productivity with the same diligence and lucidity as they deal with those which depend upon the response of the individual worker? Is it right to assume that the authors of the *Survey* give an indirect answer when they are dealing with 'democratic and totalitarian planning' and the 'freedom of choice'? Totalitarian planning is defined as 'subordinating all individual desires and preferences to the demands of the State' . . . it 'uses various methods of compulsion upon the individual to deprive him of the freedom of choice'. This is, to say the least, vague and may be seriously misleading. The attempt of public authorities to reduce potential or actual welfare of the community by claiming resources mainly for non-welfare purposes, such as rearmament, may be totalitarian; the method by which decisions about the use of resources are arrived at, may, if there is no democratic control over policy, be totalitarian, the more so if the manner in which they are carried out is also arbitrary; conscription and direction of labour may be totalitarian in peace-time. But all planning and all economic policy constrain the individual's freedom of choice, and it confuses the issue to state that 'people of a democratic country will not give up their freedom of choice to the Government' (our italics). Through their representatives they often give up to the Government freedom of choice in certain directions to gain greater freedom in others.

Freedom of choice is a loose concept. If firms are of optimum size and markets are perfect, then the consumer is said to have free choice if he can use his income as he pleases for the purchase of goods and services, or can save it. The consumer's choice is free because the producer's choice is *uniquely determined*, and in this sense, 'unfree'. But markets are imperfect, the very

distribution of money incomes is the result of grave market imperfections and the producers acquire the ability to pre-determine or pre-judge the consumer's choice. Consumer's choice becomes restricted to what manufacturers are prepared to offer, and to persuade them to buy, at the prices they fix. They may decide to offer, say, 100 different models of electric fires in price-ranges from three to twelve guineas, and do not offer the choice of ten models only at price-ranges from one to three guineas. It is this freedom of producer's choice which under conditions of monopolistic and imperfect competition *limits* the consumer's choice, a fact which the *Survey* evades and glosses over in an ambiguous phrase. If the *Survey's* criterion of economic policy is, as it ought to be, material welfare (size of output, or real income per head), then the community's choice between producer-determined variety and consumer's material welfare and industrial efficiency would have found the place in the *Survey* which it deserves. Nor should it be overlooked that a planned restriction of producer's choice helps not only to reduce shortages and hence the inflationary gap, but also lays the foundation for a sustained export drive once the seller's market vanishes.¹

Lack of standardisation and a premature return to excessive product variety contribute to the manpower shortage, the export backlog, and the rising price level. If we want to increase efficiency this trend must be reversed and the Government must re-negotiate with industry, specialisation between firms, concentration of industry and standardisation of products. It can be done democratically by consulting industry and by co-operation; but the initiative must come from the Government and the efficiency targets must be set by the Government. Manufacturers left to themselves will pin their faith once again to building up their own market-kingdoms. They may be competent and efficient in producing a multitude of products with a given equipment, but they would be more efficient, *i.e.* cheaper for a given quality, in producing a smaller number of types after suitable specialisation within the industry. When new and additional capital is extremely scarce and must be fed into exports, the most rational and economic use of existing equipment is one of the major factors which can produce an increased efficiency in the short or medium run.

(v) *Specialisation and Standardisation.*

Theoretically the case for such a rationalisation policy is overwhelming, because it economises in men and materials, raises the standard of living and increases competitiveness abroad. What, then, are the prospects of carrying out such a policy in practice? Its success depends upon the degree of co-operation between Departments, manufacturers and trade unions which can be achieved.

From an administrative point of view this efficiency policy has the great advantage of being reasonably flexible. Unlike a rigid five-year target plan, unsupported by detailed policy measures, each case can be tackled on its own merits, the speed of the drive can be adjusted to the capacity of the

¹ Cf. Section II (vii).

Departments, particular stages of production or particular industries can be selected either because co-operation in these industries can be more easily obtained than in others or because elimination of wasteful product differentiation promises substantial economies. War-time experience and skill can be drawn upon and since the policy pays a handsome social dividend even in the short run, it would be justifiable to divert administrative staff and skill to these jobs. It would compel departments to acquaint themselves more closely and actively with the particular problems of individual industries, instead of merely endorsing decisions previously arrived at by industry, or of acting in a merely restrictive capacity. It has the merit that it does not rely merely on exhortation but gets down to detailed negotiations with individual industries.

Such a policy should in many cases command active support from trade unions, and at worst their passive acquiescence. It may necessitate re-negotiating piece rates and job-grading, but specialisation and standardisation cannot, if carried out sensibly, make workers in the industry concerned worse off and are more likely to improve their earnings, particularly if coupled with a sensible bonus or incentive system. Moreover, from a wider point of view, their active co-operation should be forthcoming, because higher productivity will benefit the working class as a whole through more plentiful supplies at lower prices.

Some—and perhaps even serious—resistance to this policy must, however, be expected from manufacturers, not because they are less convinced that productivity is the key problem or because they are more selfish than other sections of the community, but because they believe that their own interests and prospects are more seriously affected by such schemes than those of any other group. As trade unions are unemployment-conscious and build up restrictive defences, so manufacturers are slump-conscious, and their method of insuring against a slump is to build up ‘sheltered’ markets with the help of product differentiation and well-organised sales campaigns. They believe that the seller’s market will soon come to an end and they wish to prepare now for the future buyers’ market. They retain sales staff and train salesmen, although goods are torn from their hands as fast as they can be produced; they develop varieties and work for customers’ specifications to build up a clientèle attached to their firm; they offer a wide range of styles and goods because they fear that by concentrating on one line of product or one group of customers they will be hit hard by a change in demand or by a rival’s invasion; they do not believe in lowering prices as a method of attracting customers or gaining a greater share in the market, because they fear that their fellow manufacturers will follow suit and leave them with the same share, but at lower prices; they believe that cost advantages may more safely be used in pushing sales expenditure to attract business. In short, they play for safety and seek to reduce and to spread risk in an uncertain world. No business man could safely do otherwise.

Without Government action the manufacturers bear the capital risk, while the community bears the cost of inefficiency. The community can

overcome their resistance only by reducing the real or imaginary risks of specialisation and of price competition. The inducements which are likely to persuade manufacturers to follow the prescriptions of efficiency are familiar : guaranteed profits or conditional increments in profits, long-term contracts, terminable at sufficiently long notice, to give security of sales and time for readjustment to variety production, should it seem desirable. A guaranteed volume of sales of agreed standard products which are subject to cost and margin control may be another inducement. In other cases it may be sufficient to offer extra raw material or equipment allocations for given percentage increases in efficiency; or tax rebates for joining schemes of utility production, or for exceeding a stipulated increment of productivity. Cartels and price rings may be induced to accept specialisation on similar terms of guarantees and price control. As it is, most British firms are too small to enjoy the advantage of mass-production on multi-product lines, and most cartels and price agreements are of too uncertain duration to allow inter-firm specialisation. Full financial pooling of resources would theoretically give the greatest results; but a voluntary or induced amalgamation movement, or a medium-term industrial co-operation scheme would be useful steps. Market imperfections have held up this process of amalgamation in the last two decades. But it need not be beyond the wit of man to devise a system which gives medium firms the advantages of mass-production without breaking up the ownership structure, and entails the monopolistic advantage of a guaranteed market held in check by agreed price and margin control. The system can be adapted to the specific circumstances of individual industries: In some cases bulk buying by a State wholesale agency may be a very powerful instrument in bringing about rationalisation in an industry; in others utility schemes may present the most practicable solution; again in others it may be sufficient to standardise parts and to leave assembly free, or to use tax rebates to achieve a desired minimum of specialisation.

On theoretical grounds division of labour between firms for mass-production of good quality utility goods is a quick method of gaining substantial increases in productivity which in turn is the answer to our problem of all-round shortages in the home market and for exports. In practice this policy is flexible, in the sense that : (1) The speed and scope of the efficiency drive can be adjusted to the capacity of the Departments ; and (2), the methods which can be employed are numerous and can be varied to suit differences of individual industries.

(vi) *Equipment and Stocks.*

The *Survey* gives the impression that the Government does not realise the urgency and size of the job of changing an obsolete industrial structure. Since the authors have little to say about the rationalisation of the industrial structure, one would have expected a concentrated effort in providing new equipment from home resources and imports. But the investment target for industry is only a few per cent above the inadequate level of a normal pre-war year, and there is no indication (apart from mining, as an afterthought,

shipbuilding and electricity generation) that the re-equipment is sufficiently concentrated to yield significant changes in output per man hour, which it can yield only when expensive equipment per head is employed on continuous mass production. Investment on this scale will not help much to raise productivity if it is distributed haphazardly over all industries or spread over industries and firms according to individual preferences, or if the new machinery designed for mass production is again wasted on small product series. The *Survey's* investment programme shows the target allocation of resources to broad groups of industries in the private and public sectors of the economy. Priority ranking of industries competing for investment resources is of prime importance for planning the 1947 output target; but it could usefully be followed up by selecting within each industry the most 'productive' projects, having regard not so much to investment propensities of individual manufacturers as to the needs of individual industries seen as a whole. The lower the industrial investment target the more important it is to select from among the numerous projects those whose combined private and social net contribution to the National Dividend would be greatest. Indeed the most powerful economic argument for nationalisation is that an investment programme carried out for an industry as a whole gives greater results for a given outlay than the unco-ordinated piecemeal investment undertaken by a great number of individual enterprises. The more this principle can be applied to the non-nationalised sector of industry in co-operation with industry, by inducements and licensing, the greater will be the benefit for the economy as a whole. Such selective investment plans for a particular industry may require or may be eased by new forms of industrial organisation: New plants and equipment may be held in joint ownership by a Trade Association or a group of firms; long-term agreements may be made with firms which are to receive new equipment, to subcontract parts to firms which are temporarily prevented from installing new equipment, and so forth. As new equipment is scarce, priority allocation will be necessary in any case and the point at issue is the principle on which allocation for new equipment should be based. Since the market mechanism of interest rates disregards social cost and returns, and since under present circumstances interest rates alone could not control investment, it is clearly necessary to substitute for a non-functioning market regulator a deliberate planning principle.

The investment programme does not mention explicitly one item which would seem to be of major importance in our present situation and for the smooth working of any high-employment economy: investment in stocks. The need for holding material stocks has been driven home by the fuel crisis; it applies equally to other raw materials and to goods in the pipeline. Adequate stocks held under Government licensing are vital for maintaining a minimum flexibility of an over-employed economy, which tends otherwise to run into bottlenecks. An under-employed economy has reserves of *all* kinds of factors of production; it must clearly be the principle in conditions of over-full employment at least to hold reserves in equipment and raw materials.

Resources in the investment programme should therefore be allocated to this restocking process.

Rationalisation and investment planning are such an obvious solution for our present productivity problems that their implicit rejection by the *Survey* and by the policy pronouncements of the Government require some elucidation. The Government's reluctance to pursue a more vigorous policy may be traced back to two main arguments :¹

- (1) The complexity of our industrial structure is an asset and will help us to maintain ' the essential flexibility of our economic life ' (para. 10).
- (2) In the medium and long run our exports must be goods of highest quality and most varied design to secure a firm foothold in foreign markets.

How far are these arguments valid ?

(vii) *Complexity of Industry and Flexibility.*

The historically grown complexity of this country's industrial structure cannot and must not be taken as unalterable or as an unmitigated blessing. It will have to change substantially if we are to reach the double target of balancing our foreign trade accounts and of raising our standard of living, and if we are not to fall back further relatively to the leading countries and to those which are advancing their industrialisation. Nor must it be assumed that the differentiation of product and design makes an economy more flexible just because business men regard it as a safeguard for their own individual businesses. It would be difficult to maintain that mass production methods made the American or the German economy less flexible in adaptation to war needs than the British economy. It is true, of course, that in a technical sense changes in design, patterns and models in a factory laid out and equipped for mass production of a few standard articles require more time and effort² than the adjustment of smaller and non-specialised equipment of a firm making a variety of differentiated products. That, however, does not prove that the responsiveness of a highly-capitalised economy to changes of demand is lower. Even when allowance is made for the greater unused resources of the American economy, there can be little doubt that its resilience to the fundamental changes in demand brought about by the war and again by the reconversion period was greater than that of the British economy, just because the capital goods industries were ready to pour out mass produced equipment, and because the technicians and business men were familiar with problems of standardisation of parts and products, and with

¹ There may be a third, non-economic argument : Even if it were admitted that rationalisation and more detailed investment planning are desirable, it is beyond the power of the present administration to carry out such a policy with any prospect of success. There is, of course, a limit to what a harassed administration can do. But attempts to improve productivity in under-manned industries or struggling export industries could be made and negotiations with these industries need not overtax the capacity of the Departments, which are in any case in frequent contact with these industries about prices, raw materials product specifications, exports and so forth.

² The changes may be more costly, but they will occur less frequently.

large scale operations. The higher productivity associated with mass production makes in this way for greater flexibility. Moreover, mass production lines, once established, make it more difficult for consumers' whims to exercise an influence on the methods of production, since new firms ready to cater for variety of designs cannot easily enter the market and offer their goods at competitive prices.

This is merely an application of the well-known theorem that the degree of product differentiation is not so much dictated by consumers' preference as by the producers, who create relatively sheltered markets for themselves and promote sales by *inducing* a change in consumers' demand. An alteration of the structure of industry will automatically alter and limit the structure of consumers' demand, and this applies with particular force in conditions of general shortage and overemployment.

(viii) *The Structure of Exports and Productivity.*

Implicitly, and sometimes explicitly, the preservation of our industrial structure, and the accompanying product differentiation, is defended on the grounds that it will serve to expand and maintain exports better than any other policy. The proposition underlying this contention seems to be this: In cheap staple goods the British economy cannot compete with the low-wage industrial countries (such as Japan), as the experience of the 'twenties has shown; in good quality mass produced goods we cannot compete with the high-wage industrial countries such as the United States, because we have not the advantage of the size of their market. We must, therefore, rely mainly on specialities adapted to customers' wishes, and cater for variety, multiplicity of design and goods made to individual specification, for which our industrial structure is particularly suited. Many economists, including the authors of the *Survey*, seem to take this view, which would turn this country, which introduced mass production methods into Western capitalism, into the odd-job-man.

It is true that high-priced and highly differentiated goods with a relatively high proportion of prime and overhead labour may find a market in rich economies (such as some of the hard currency areas) or amongst the well-to-do classes of poor countries, but demand for these goods though relatively inelastic with regard to price would seem to be very elastic with regard to income changes and will therefore make our exports very sensitive to fluctuations in income abroad.

For the export drive to rely mainly on design and rich assortment presupposes a form of market research and an understanding of and adaptability to foreign tastes for which the British economy has not been particularly conspicuous in the past, just because throughout the nineteenth century it had the advantage of superior and cheaper mass production. Under pressure this adaptability can be acquired, though it will have to be learned in competition with others, who, for some time past, have been experimenting successfully in this field.

There is room for semi-hand-made goods and for individual goods made

to order (e.g. ships or generators, where the final good will be built to customers' specifications but where the advantages of mass production can be retained by using standardised parts), but it is unlikely that this type of good can constitute more than a small, though lucrative, part of our export trade, or will enable us to reach our target and to stay there. The bulk of our exports must come from mass produced quality goods which will sell in the middle and lower social strata of the rich countries, in the less wealthy countries of Europe, Asia and Africa, and last, but not least, in the low and medium income ranges of our domestic economy. Low or high wage countries may be superior in some of these lines of production, but there must be a range of products where our economy has relative cost advantages in mass produced products. It is, therefore, not unlikely—and market research may throw more light on it—that Britain could obtain a market in well designed, good quality, cheap, mass luxury goods which are now outside the reach of the upper working and lower middle class incomes, but could be brought within their reach by standardisation of parts or patterns. This applies to a great number of engineering products, household goods and appliances, sports goods, and tools, but also a great number of capital goods. For all such goods, the difference in price between mass produced quality goods and the dearer differentiated goods can probably be made great enough to secure a market for the former.

The assertion that the small size of our market does not allow us to go in for more and bigger (capital intensive) mass production is untenable. The size of the market of any particular product is a function of : (a) the price at which it can be produced (the cheaper, the lower down the income scale it will be bought and the wider the market); (b) the degree of vertical or horizontal integration and product differentiation which exists in the industry producing it and which may make the market of each firm and of each differentiated product too small to obtain the full benefit of specialisation and mass production; and (c) the degree to which its marketability can be extended beyond the home market, which again is a function of its price relative to competitive prices abroad. In other words, the size of the market tends to grow as industrial structure changes in the direction of greater specialisation between firms and smaller variety of products. The higher output per man hour resulting from mass production methods will mean a greater real income at home, and probably also, at least in certain lines, a greater competitiveness abroad.¹

All these points, which are so important for our future export policy, should have received some attention from the authors of the *Survey* and by the research sections of the various Departments, for, as we have argued above, much depends on the guidance the government gives to industry in this field. Left to itself, the business world will try to produce a variety of goods

¹ Currency depreciation would tend to improve our competitiveness, but would turn the terms of trade against us, which has the same effect on the standard of life as a fall in productivity.

on an uneconomic scale, and seek shelter behind product differentiation and oligopoly, and nobody can blame business for it.

III. BOTTLENECKS

It has been said, in criticism of the *Economic Survey*, that the problem is not so much one of an overall shortage of manpower as of maldistribution, and that attention should be concentrated on increasing the mobility of labour. Little is to be gained, however, by seeking a single ultimate, or fundamental, origin of our difficulties.

We were at pains above to insist that there is at present *general* over-employment, or excess demand, of such magnitude that practicable reductions in current disposable income and practicable increases in the total numbers employed and in output per man-year cannot be sufficient to close the gap in the near future. It is true that the excess demand exerts greater pressure in some sectors than in others, but the important point is that whatever the distribution of manpower at present, every employer would be in a position of wanting to take on more workers, if he could get them. The *tendencies* inherent in this situation are price increases, and the running down of stocks. Hence the necessity for price control and subsidies and rationing.

If price control and rationing were universal they would solve the problem of inflation. Unfortunately they are not, and, if we are to be realistic, they cannot be made universal. The attack is concentrated on 'essentials': but the very success of controls in the essential sector drives the excess demand towards the non-essential sector, particularly various types of service using little materials but much labour. With control and direction of labour this might not matter. Without it we are confronted with a dilemma. In principle we need universal price control and rationing to prevent inflation: in practice we have only partial controls. As a result we get an unbalanced labour force which leads to occasional breakdowns of whole parts of the economy because of specific shortages. But if we allow prices to rise freely in the controlled sector we get the very inflation we are trying to stop. It should, however, be emphasised that current profitability of luxury trades is not the only cause of the trouble. This certainly puts the uncontrolled industries in a position to pay higher wages, but the worker's choice also comes into the picture. And that is very much influenced by the past history of certain industries, *e.g.* coal and cotton. It is just as much a question of workers steering clear of the 'right' industries as of their going into the 'wrong' ones.

The general over-employment creates a further difficulty. Since labour is scarce, and likely to remain so for as far ahead as the average employer cares to look, many employers are retaining an unnecessarily large labour force, as a kind of investment for the time when materials may become more plentiful: and in the special case of selling staffs, for the time when the 'seller's market' may weaken.

We might therefore say that the problem is one of maldistribution of labour, seriously aggravated by general over-employment. But to think

exclusively in terms of the distribution of manpower is mistaken : and it is very much to be regretted that both the *Statement* and the *Economic Survey*, in their formulation of the problem, have brought out only this aspect of it. We might with equal force say : The distribution of manpower between industries is what it is : it is no use looking for *substantial* changes in numbers in any industry, and small changes will not do the trick. What is wrong is the distribution of productivity.¹ The bottlenecks must be attacked from both sides : increased manpower and increased productivity.² There is a third possibility: increased imports. In time this comes back to a manpower problem in export industries. But in the short run the task is to find those parts of the economy where alternatives do exist, and to choose the right alternatives.

(i) *Imports.*

Two limitations are imposed on the use of imports to relieve bottlenecks : the precarious state of the balance of payments and the fact that the major foreign countries are also experiencing over-employment, so that supplies are not in any case elastic.

The first is a question of priority: not easy to decide when opinions differ as to the desirable pattern of production and distribution of consumer's goods. In two cases, however, the priority settles itself. Coal and mining machinery, and timber, must be given highest priority, since the 'cost' of failure of these supplies is not merely the materials themselves but the value of output of the whole of the industries dependent upon them and which will not be produced if the supplies are not forthcoming. This is easily said. But supply difficulties overseas must be considered also : it is a mistake to suppose that bottlenecks are exclusively a British product at the present time. As much attention must be given by the Government to the quality of its purchasing agencies as to the question of priority claims on foreign exchange. The Furniture Working Party, in its report last year, expressed 'grave concern' that no official estimates had been made of expected trends in demand and supply for plywoods and veneers in the next five years.³ Between November 1945, and November 1946, stocks of imported softwood fell by more than one-half, and of hardwoods by rather less than one-half. This was, of course, due to the considerable rise in consumption in the course of 1946. But the maintenance even of this level of consumption is impossible without increased imports. The *Economic Survey* has nothing to say in detail about consumption and stocks of imported materials, nor about future programmes. This

¹ See, for example, the Table in the *Statement* (p. 5) showing the percentage increase in manpower required to reach mid-1939 level in certain industries. The figure for silk and rayon is 20 per cent and for cotton 34 per cent. But while productivity in cotton has probably fallen a little since 1939, so that the manpower shortage means an equivalent reduction in output, in rayon, partly because of producing a limited range of deniers, productivity is some 50 per cent higher, so that output is substantially above 1939.

² This is not synonymous with an increase in capital. It includes (1) increased 'effort' by workers, (2) improvements in the organisation of production in the factory and in the industry, (3) new machinery.

³ Furniture Working Party Report, p. 40.

is a significant gap which, it is hoped, will be filled up when the longer-term five-year plans are published.

(ii) *Mobility of Labour.*

In some cases, as in timber, where the bulk of the material consumed is imported, and where at the same time there are foreign supply difficulties, the materials bottleneck can only be solved for some time by the most careful allocations and the strictest economies in use. The development of substitute materials may be a long and rather slow process. In others, *e.g.* coal, imports are needed to tide over an immediate crisis, for which the main solution may have to be found in increased manpower in the home industry. We now turn to the means of inducing movements of workers in conditions of over-employment. They consist of inducements to come into the 'right' industries and direct, or indirect, measures to restrict entry into the 'wrong' industries.

On the positive side the only possible attraction is a differential advantage—whether cash or kind, *e.g.* priority in housing for miners. In the long run, with continued full employment, money wage differentials should just offset the differences in the net disadvantages (risk of injury, unpleasantness of work, the need to work night-shifts, etc.) As a principle of paying people to do dirty work this is sound enough, and an official enquiry, with the assistance of the T.U.C. and employers, should be made to see how far this principle might be translated into concrete terms.¹ Such differentials, even if established, would not themselves be sufficient to *move* large numbers of workers quickly. They would hold the proper proportions once reached, but it might take a very long time to reach them. The empirical approach is probably the only possible one. That is to say, wage differentials should be increased where there appears some likelihood of a substantial flow of recruits to relieve the bottleneck. Such wage increases (to get compensatory wage reductions in other fields is politically well-nigh impossible) should not lead automatically to higher prices. The selling price, which may be kept steady by subsidy, allowed to rise, or even further increased by indirect taxation, should be settled on its merits. Would such an increase raise significantly the cost-of-living index: at once, and when higher material prices have filtered through to higher prices of finished output? If so a subsidy is indicated, unless compensating price reductions elsewhere can be obtained simultaneously. If the shortage of the bottleneck product is so acute that quantitative allocation is necessary in any case, *i.e.* the price increase required to establish equilibrium in this sector would have to be enormous, then there is little to be said for a smaller rise in price.

The difficulties of bringing about correct wage differentials must, however, be recognised. It cuts across traditional collective bargaining, and while the trade unions are showing considerable restraint in not pressing for all-round wage increases in sympathy with increases obtained for workers in

¹ The task is difficult: but it should be possible to arrive at some rough estimates for several important industries. The wage structure in France, centrally planned, makes allowances of this kind in certain instances.

certain under-manned industries, neither they nor the Government¹ seem yet prepared to use wage differentials as a flexible instrument to *induce* movements of workers. Differential rationing, and priority in housing and consumer's supplies, are an obvious complements to, and even to some extent substitutes for, wage differentials. Some progress has been made in giving preference to miners. But here again similar resistance is to be expected in attempting to generalise the principle from the outstanding instance of coal-mining. Nevertheless, the Prime Minister's appeal to every worker to ponder on his work and to enquire whether he might not be doing more useful work elsewhere, will produce little result unless accompanied by concrete advantages in cash or kind.

(iii) *Steering by controls.*

Differential wage and other advantages for the bottleneck industries may not go very far if there is a substantial uncontrolled sector, where excess demand is allowed unchecked to inflate profits and then wages. Somehow manpower in non-essential trades must be prevented from rising further or even be reduced below present levels. We consider three broad methods of Government control or regulation.

(a) Indirect taxation of luxury products might, if heavy enough, eliminate the excess demand and create an excess supply. Ultimately this would lead manufacturers and employers (in the case of services, *e.g.* football pools) to reduce their staffs and so release workers for more essential work. But if our earlier analysis of the excess demand problem is correct, these taxes might have to be enormous to achieve the desired result. Alternatively a graded tax on employment in the luxury trades would work in the same direction as the tax on the product and, at the same time, encourage labour-saving in the luxury trades themselves. The difficulty is that many firms, and industries, produce both luxuries and necessities and the application of the tax would be difficult in practice.

(b) Steering production by raw material allocations has been widely recommended. Mr. E. A. G. Robinson has recently re-emphasised the need to plan on the narrowest bottleneck.² Differential allocations of certain key materials, particularly coal, between industries and even between firms, will deny luxury trades the possibility of further expansion before the essential industries are properly balanced in relation to them. On this point the *Economic Survey* says: 'The controls cannot by themselves bring about very rapid changes, or make very fine adjustments in the economic structure. To do this they would have to be much more detailed in their application and more drastic in their scope.' That is just the point: certain controls will have to be more detailed if a series of recurrent breakdowns of the whole system is to be avoided. No doubt the equity principle—the uniform percentage quota based on a standard period, whether it be to determine cotton allocations to

¹ Cf. the comments of the Parliamentary Secretary to the Ministry of Labour, Hansard, March, 1947. Col. 523.

² Cf. *The Times*, March 5th, 1947.

the individual firm in a textile trade, or fuel allocations between industries—is the simplest and perhaps also the line of least political resistance. But it is also the least efficient.

Detailed allocation of all materials is not required. Concentration upon a few key materials, *e.g.* timber and steel, taken with a detailed, discriminatory, fuel allocation,¹ will do much to limit luxury production and guarantee supplies for essential industries. Moreover the allocation of fuel and new materials to firms may be made conditional upon the pursuit of certain positive measures *e.g.* concentration and standardisation of products, which are necessary if productivity is to be raised rapidly. To starve the non-essential trades of materials and fuel will go some way towards releasing labour for more urgent needs. But 'steering' manpower by this means is rather clumsy. In the first place firms may run for some time on private stocks, which are not reclaimed by the control. Leakages, and the use of substitutes, are bound further to weaken the efficiency of controls. Moreover the greatest wastage, potential or actual, of manpower is to be found in services and in trades using relatively little raw material or fuel. Finally many employers would continue to 'invest' in labour which, for the time being, cannot be fully employed, but which is retained in anticipation of more plentiful material supplies and, in the case of sales staff, of the ending of the seller's market.²

(c) Control of employment goes straight to the root of the economic problem. The *Economic Survey* rejects the direction of labour, and certainly compulsion of the individual should not be considered before every possible alternative has been tried. But the case against restriction of engagement of workers in certain industries is less decisive. Restriction of entry, operated by private associations or professions, has long been a feature of our economic landscape, and it merely limits, without destroying, the freedom of choice of occupation for some.³ This control was used, among others, during the war and appears to be simple. Employers in the industries to be limited may not employ workers except through the Employment Exchange, nor may a worker seek employment in the industry except through the Exchange. The permitted number of workers in the industry is then fixed and according to the present number, expansion must cease or some workers must be discharged. Simple in principle, it is in practice a rather complicated control. Consider, for the purpose of illustration, the case where a 10 per cent reduction in manpower is required within, say, three months. Even if all new entry is stopped, natural wastage (retirement, migration, etc.) may not be sufficient. Which firms must give up workers, and which workers are to be discharged? If there are a few large firms, then no doubt the uniform cut is one solution.

¹ John Bull may be unable to read his meter at home: John Bull and Co., Ltd., keep records of fuel consumption in factory, office and shop.

² The price mechanism is even more subject to all these weaknesses.

³ It might be argued that any control, direct (such as restriction of engagement) or indirect (such as heavy indirect taxation), which leads to the same number of people being employed in a particular trade, involves an equal loss of freedom. The preference for the indirect approach would still remain.

It sacrifices efficiency but it is practicable. But what if there are numberless small firms, as, for example, in the distributive trades. An equi-proportionate cut of 10 per cent on firms employing less than ten persons (and this is the majority in these trades) does not make sense. If it were not a question of reducing, but merely preventing a further increase, a 'freeze' order, that no firm should employ more persons than it was employing at the base date, would be so inequitable, as well as inefficient, that it could hardly be maintained.¹

One alternative might be to restrict the employment of certain age groups, *e.g.* women up to 30 and men up to 25. Another would be to ask an industry, nationally or by regions, to release a certain number and leave it to the individual firms or the trade association to make the arrangements. The experience of voluntary concentration in 1941 does not, however, recommend this procedure. Which workers are to be discharged? Here there are two difficulties. Apart from unfair discrimination of employers (this danger arises, after all, in any situation where numbers of workers are being discharged) there is no certainty that the workers released will be suitable for the alternative employment in the bottleneck industries. Nor is there any guarantee that they will go there. There is a real danger that restriction might simply reduce employment in non-essential trades without increasing it anywhere else at all: discharged women, for example, might simply go out of paid employment altogether.²

In the circumstances the policy at present being followed by the Ministry of Labour in the case of football pools, of opening negotiations with the industry to come to some agreement about the quality and mobility of the workers they employ, may well be the most fruitful.

Workers may object that restriction of employment is nothing but creating unemployment as a stimulus to mobility. And there is force in this argument unless the restriction is accompanied simultaneously by schemes of training and entry into several essential trades, which the released worker may choose. He must be under no compulsion to enter any of these trades: but the offer should be there and should be made attractive. Thus if restriction orders are to be imposed it may well be best to apply them selectively, by region or by industry, so that administrative forces can be concentrated to yield the greatest possible return of workers for the bottleneck industries.

If we make reasonable allowance for the normal resistance in peace-time to unfamiliar methods of control, and inducement, and for the limited power of the administration to operate detailed controls (not that the controls are difficult in principle, but that the avoidance and elimination of anomalies consumes extra manpower), we may well doubt the feasibility of obtaining a proper balance of outputs by means of manpower movements so long as the situation is one of general over-employment. A further and serious limitation

¹ Licensing of non-food shops broke down owing to the pressure on the administration to deal in some detail with almost every application for a licence.

² A high proportion of women released from the cotton industry in 1941 were lost in this way.

to movement is the shortage of housing. It is perhaps significant that in its statement of the desired manpower distribution at the end of 1947 the *Economic Survey* does not allow for more than a 7 per cent change in any of the major industrial groups.

(iv) *The Productivity Approach.*

The under-manning of certain industries is a reflection of a lack of balance in the outputs of those industries in relation to others. If our argument is correct that the obstacles to manpower adjustment in conditions of general over-employment are numerous, the only approach is to attempt to raise productivity per man-year, not so much in all industry as in particular bottleneck industries.

We have already discussed above the methods of raising productivity in general. We need not add to that discussion except to emphasise that the productivity drive should be deliberately biased and concentrated on the bottlenecks, both in the attention of administration and in priorities for re-equipment. It may truly be said that by nationalising the coal industry in order to create the most favourable economic conditions for following the recommendations of the Technical Advisory Committee on Coal Mining, and by singling out the cotton spinning industry for special subsidies to investment, the Government is following the right lines. But there is one additional point which should be made with regard to the 'under-manned' industries, whether or not they are bottlenecks in the sense that later processes are dependent upon their output. It is just in these industries that the greatest savings of labour, through specialisation of firms and concentration of production, can be achieved. The dangers of the 'spread-over' of labour are well known: there is an equal danger of spreading limited output over too many firms with consequent wastage of 'overhead' labour. If, therefore, it is objected that schemes of standardisation, specialisation of firms and of bulk purchase would involve too great a burden on an already overtaxed administration, the argument would not hold where the concentration of administrative effort on the development of these techniques in selected industries led to the breaking of a bottleneck and thus the relief from stringent allocation of the product itself.

To sum up, in attacking the more acute bottlenecks the Government must advance along many lines: imports, where possible; wage and other differentials to attract manpower; and standardisation of products and specialisation of firms, accompanied where possible by bulk purchase so as to remove risks of specialisation from the shoulders of individual manufacturers. Discriminatory allocation of fuel and raw materials may be used to assist the process of standardisation and specialisation.

CONCLUSION

For the second time in thirty years Britain must try to restore the balance of her economy, weakened and distorted by total war. This time the task is formidable indeed. (i) We must make good the damage and the disinvestments of the recent war. But we have also to overcome the losses of efficiency

and the decline of important industries which were the product of our failure in the inter-war years. (ii) The balance of payments position has so weakened that, from a substantial creditor we have become a net debtor. We have to achieve a massive expansion of exports in a world system which itself must be transformed radically if that expansion is to be realised.

The diversion of resources on a great scale to additional exports and to large scale investment in industry and in housing would, under the most favourable conditions, put a great strain on the country and would require careful economic planning and adequate controls. But the conditions are by no means favourable.

Externally, the destruction and weakening of major economies in Europe and Asia, coupled with the uncertain behaviour of the United States, dominant in economic size and in the influence she can exert on monetary and commercial policy, intensify the export problem and the obstacles to be encountered in overcoming it. Internally, the great piled-up demand for durable and semi-durable consumer's goods exerts a powerful and persistent inflationary pressure which must be restrained, but can only be restrained at the risk of loss of flexibility and incentives in the economy.

The task is formidable: the tools must be fashioned accordingly. The traditional instruments are not likely to stand up to the strain. The price mechanism, the automatic adjustment of supply and demand in a free market, worked so long as the expansions and contractions required were relatively small, and in periods when there were considerable reserves of fixed capital, stocks and labour. Now we have few reserves and the adjustments to be made are great. Dear money, for example, must be rejected because it is hopelessly inadequate as an instrument of control and is purely restrictive, when what is needed as a combination of restrictions in some directions with a drive for expansion in others.

The existence of a great accumulation of forced savings adding to the pressure of demand generated out of current income severely limits the contribution which the Chancellor of the Exchequer can make to mitigating the symptoms of over-employment. Either we have a go at the piled-up demand with a confiscatory capital levy, or else we must accept as our companion for several years to come a *potentially* inflationary situation, the ill-effects of which we must do our best to obviate by rationing, price control and subsidies. We should, of course, try to set a definite period for working off the piled-up demand, and, within rather narrowly defined limits, the Chancellor can speed up this process. But it would be wrong to listen to the siren-song of the 'dis-inflationists', the 'restorers of the price system' whose policy for stemming the flood is to cut away the banks at their weakest point. The stabilisation of the cost of living, which, of course, permits price increases in some sectors if accompanied by decreases elsewhere, must be maintained.

There is no doubt that greater production is the key to the excess demand problem. Increased manpower is favourable wherever it comes from and, with certain qualifications, into whatever industries it goes. The optimum

is a transfer from the services to bottleneck industries. But with housing so short manpower increases from home or abroad can make only a small contribution. A sharp and immediate increase in output per man year is what is wanted. Here the *Survey* wills the end but not the means. If the fact that 'the decisions which determine production are dispersed among thousands of organisations and individuals' (par. 9) is taken as unalterable, then indeed we must whistle for higher productivity. It *may* come, at a rate of $1\frac{1}{2}$ per cent per annum increase, or it may not. Output per man year is alterable by stimuli to individual firms to instal new equipment and by stimuli to individual workers to work harder and more regularly. This is all that the *Survey* envisages. But for immediate and substantial increases more is needed. The lifting of risks from manufacturers by placing large contracts; the concentration of production into the most efficient units and the standardisation of products. All these measures require Government initiative and supervision.

The need to raise productivity chiefly in certain sectors was re-emphasised when we considered the utilisation of manpower. More can be done than hitherto by wage and other advantages for key industries: non-essential trades and products may be curtailed by a more detailed allocation of fuel and certain raw materials. It is dangerous however to lean too heavily on steering by negative, restrictive controls. Dominating the situation is an excess demand which tends to slow down the forces of adjustment through manpower movements.

To ask for more detailed planning over the whole field of industry would be to ask the impossible. The administration is already heavily over-burdened. Rather is the problem to select a relatively small number of key controls, of fuel and raw materials (which may change from time to time) and, possibly, the restriction of engagement in certain trades, as the main 'steering' devices for the economy as a whole. In its effort to raise output per man-year the Government should concentrate upon those industries which are bottlenecks. Second in priority, but nevertheless important, are industries, such as furniture, in which, because of raw material shortages, considerable economies of manpower can be achieved by concentration. The concentration should be so organised as to release manpower in areas where alternative employment in essential industries are available.

Such a policy means abandoning the idea of a gradual emergence from the low level of war-time consumption, each stage being marked by a further relaxation of 'irksome restrictions' and a further restoration of product differentiation and market imperfections. Our first task is to use every device to raise productivity in the sectors of industry which are holding up, or are likely to hold up, other sectors. We hope that the new Planning Department will be set to construct the framework of such a policy.

F. A. BURCHARDT.

G. D. N. WORSWICK.

THE CHARTER OF THE INTERNATIONAL TRADE ORGANISATION AND THE PREPARATORY COMMITTEE OF THE UNITED NATIONS CONFERENCE ON TRADE AND EMPLOYMENT.

I. THE BACKGROUND

At the first session of the United Nations Economic and Social Council in London, in February 1946, it was decided, on the motion of the U.S., to organise a Conference of the United Nations on Trade and Employment. The aim of this conference was to promote higher standards of living by 'an undertaking on the part of its members *to seek full employment* (my italics) and by further concerted measures dealing directly with trade barriers and discriminations.' A preparatory committee of 18 members was selected at the second meeting of the Economic and Social Council in New York. All members selected, with the exception of the U.S.S.R., attended the first meeting of the preparatory committee in London. Some other members of U.N.O. sent observers and representatives of other international governmental organisations already in being and of certain non-governmental bodies participated.

The U.S. delegation submitted to this conference a draft of a suggested charter for an International Trade Organisation of the United Nations. This draft represented an elaboration of the proposals for consideration by an international conference on trade and employment which had formed part of a joint statement of the U.S. and the British Government in connection with the financial agreement concluded between them at the end of 1945.¹ The Government of the United Kingdom declared on that occasion that it was 'in full agreement on all important points in these proposals, and accepts them as a basis for international discussion, and it will, in common with the United States Government, *use its best endeavours to bring such discussions to a successful conclusion* (my italics) in the light of the views expressed by other countries.' The French Government on the occasion of concluding in its turn a financial agreement with the United States in the middle of 1946 also endorsed these proposals.²

II. THE U.S. DRAFT

Progressive U.S. opinion has reacted vehemently to suggestions that the U.S. proposals for international economic reconstruction were conceived in a spirit of extreme and narrow dogmatism which refused to recognise a change in the nature of the problems since before the two destructive world wars and aimed at securing special commercial advantages for large highly developed potential lenders. It is maintained, in all sincerity, that these proposals were framed exclusively with a view to benefit all countries whatever their economic or social system, size, or state of development. This claim can hardly be sustained on however favourable an interpretation of the actual text of the U.S. draft charter of the proposed International Trade Organisation.

¹ Cmd. 6709.

² Cf. French Reconstruction and the Franco-U.S. Loan Agreement, BULLETIN, 1946, p. 294.

On almost all important points the rules proposed tried to foster the export capacity of strong large political units, secure the maximum bargaining power to those able to lend, and to exclude any possibility of limiting the spread of depressions, or of arranging for the orderly planned transfer of debt payments.

This bias is the more peculiar as in the coming years the export capacity of countries which have not suffered destruction and impoverishment as a result of the war, and which answer the foregoing description, such as the U.S., *is in no way limited by the policy of other countries but is determined exclusively by the amount of foreign exchange* which the United States and some other countries in the same category place at the disposal of others either by buying from them or lending to the distressed areas.¹ Any regulation, such as the insistence on the dissolution of the so-called sterling area dollar pool, which limits trade within the distressed area by insisting on complete convertibility is *a priori* likely to *decrease total world trade*, and thus to run directly counter to the purpose of the conference.

We must now turn to a more detailed discussion of the more important points of this Draft.²

(a) The main task of the international trade organisation as defined by the U.S. is the reduction of tariffs and other trade barriers and the elimination of discriminatory treatment.³ The maintenance of full employment, which was to have been a conjoint task of the new organisation, according to the resolution organising the conference, and which in the view of many represents the sole stable basis of a wider international division of labour, received only incidental mention as a *consequence* of the reduction of trade barriers and the prohibition of certain specified practices. Yet the history of the inter-war period shows that governmental regulation of foreign trade, economic protectionism, and more especially those discriminatory practices to which most objection was taken were, to a large extent, the direct outcome of the growing instability and continued depression in the most important industrial countries of the world.

(b) The provisions concerning employment policy occupy less than one of the 47 pages of the document. Only consultation and the exchange of information on the employment policies were provided for, no sanctions were proposed against the violation of the pledge to maintain employment domestically by measures which would not directly increase unemployment elsewhere, *i.e.* measures other than those which concentrate on increasing exports without an increase in foreign lending or which cut imports.⁴

(c) Unconditional most-favoured-nation treatment was to be accepted

¹ It is distressing to note that economists of the standing of Prof. Hausen have succumbed to this fallacy. Cf. *America's Role in the world economy*. President Truman in his recent speech (*The Times*, March 7th, 1947) gave official prominence to it.

² Suggested Charter for an International Trade Organisation of the United Nations. An elaboration of the U.S. proposals for expansion of world trade and employment prepared by a technical staff within the government of the United States and presented as a basis for public discussion. The Department of State, U.S.A., September 1946.

³ Chapter I, para. 1. ⁴ *Ibid.*, Ch. III, para. 3—7.

as the basis of all commercial relations. All preferences which were not in force on July 1st, 1939, were to be prohibited with the exception of those between the U.S. and Cuba and the Philippines respectively, and those granted by the members of the British Commonwealth of Nations to one another. No new preferential regional arrangements were to be permitted.¹ Those preferences which were excluded from the complete prohibition were to be automatically reduced, possibly eliminated, by any reduction of customs duties agreed upon as a result of a multilateral negotiation which was to take place during the establishment of the organisation. In case of an emergency, tariffs could be raised to protect domestic producers menaced in consequence of the reduction of the customs duties agreed upon. Preferences could not be restored to their previous level in an identical manner.²

(d) There was no differentiation in matters of commercial policy between small and large, poor and rich, under-developed and highly industrialised countries. Nevertheless it is clear that the existence of a large and powerful domestic market protected by tariffs confers an immense relative advantage on the producers in that area, which can be considered a 100 per cent preferential system.

(e) All quantitative regulation of exports and imports was to be abolished. The only exceptions to this rule were quotas imposed :

- (i) in the early post-war transitional period;
- (ii) for certain unimportant and closely defined technical reasons;
- (iii) on agricultural products in connection with the inter-governmental commodity agreements which affect primary products only;³
- (iv) if the unfavourable balance of payments threatens the international reserves of a country with exhaustion.⁴

In the last case discrimination either :

- (a) between sources of supply, or even
- (b) between commodities

was to be prohibited. The organisation would arbitrate in any dispute between countries by a simple majority vote and after December 31st, 1949, the organisation would have been able to disallow any quantitative regulation of foreign trade. Thus in general the planning of foreign trade was to be made impossible and members were to be exposed to the vagaries of uncontrolled world markets (except perhaps in primary products), unable to prevent a depression from spreading from one country to another (as such a depression would increase the sales pressure of the depressed country, while depressing its purchases from abroad.) They could not even restrict the purchases of luxury goods so as to be able to maintain the import of necessities when their reserves threaten with exhaustion. The problems of the poorer areas were especially serious, as no relief was provided for their planned development. Thus their chances of catching up with the tremendous progress of other areas were considerably lessened.

¹ *Ibid.*, Ch. IV, Sec. A, para. 8.

² *Ibidem*, paras. 19, 29.

³ *Ibidem*, para. 19.

⁴ *Ibidem*, para. 20.

(f) The non-discriminatory administration of quantity restrictions was to be supervised stringently and all relevant information was to have been handed to the organisation.¹ The selection of a representative period on the basis of which quotas were to have been established was left to the member introducing the restrictions. But it could be imposed by the organisation after the investigation on complaint of another member. The only exceptions to the rule of non-discrimination were :²

- (i) Quotas imposed to implement the so-called scarce currency clause of the Final Act of the Bretton Woods conference;
- (ii) Quotas imposed by countries belonging to the same currency area when they imposed quantitative restrictions to defend their common currency;
- (iii) Quotas imposed until December 31st, 1948, to liquidate inconvertible balances.

Unfortunately it is by no means certain that the currency of a member country will always be declared scarce as soon as a depression starts in that country. This will happen if such a member were to be subject to a slump, whose quota exceeds 25 per cent of the combined quotas of those members whose prosperity is primarily menaced. In that case an unconditional application of non-discrimination is likely to spread the depression because the depressed country will be a formidable competitor in third markets while at the same time it will buy little abroad. If its exports cannot be discriminated against by other countries while at the same time its currency cannot be obtained from the Bretton Woods fund because of the exhaustion of the borrowing limits of those countries which pursue full employment policies (these limits are fixed at 25 per cent of the quota of the borrowing countries), the latter would be forced to readjust their balance of payments either by an increase of economic self-sufficiency nationally and separately, or by a cut in national income through deflation. Both expedients will cut world trade unnecessarily and might render full employment impossible in countries which are not self-sufficient. Deflation was the more probable alternative as Paragraph 20, would have enforced non-discrimination between commodities, that is to say, made a more severe restriction of luxuries and semi-luxuries impossible.³

(g) The grant of export subsidies was to be prohibited, the only exception provided were in respect to agricultural products (*e.g.* cotton or wheat) and only in the case when a member country instituted the subsidy in order to regain that share of the world trade which it obtained in a previous representative period.⁴ Thus the readjustment of the international division of labour between countries could be prevented by a rich country. This exception could clearly benefit mainly the United States and would prevent their development into a large importer through the more intensive development of agricultural production elsewhere, which would benefit the poorer countries, and, incidentally, help to restore a better monetary equilibrium in the

¹ *Ibidem*, para. 21.

² *Ibidem*, para. 22.

³ Cf. above.

⁴ § 25.

world economic system as a whole. In so far as subsidies not restricted to exports were permitted while export subsidies were prohibited, poor areas were put at a great disadvantage as they could not contemplate the finance of more extensive grants, while they might well bear the burden of limited export subsidies.

(h) All State enterprise was to be conducted on the basis of strict non-discrimination. No such obligation was put on private enterprise or on public works contracts concluded by a Government with private enterprises.¹

(i) All State enterprise must effect its purchases and sales solely on the basis of commercial considerations which are defined so narrowly as to exclude any but those of short-term character. Long-term contracts, so important to give security to producers and thus secure, without exploitation, favourable terms to consumers, are implicitly excluded; so are reciprocal purchase agreements which assure a capacity to pay the purchaser. None of these obligations bind private concerns.

(j) Full and specific information was to have been given on all State enterprise at the request of a member country. No such obligation was laid down in respect to private enterprise.

(k) All enterprise must, for the purpose of §26, be regarded as State enterprise over whose operation a member government exercises, directly or *indirectly*, a substantial measure of control. All non-nationalised enterprise, even in countries which have suffered from the effects of the war and which, because of the resultant impoverishment, have to plan the reconstruction of their economic system, and therefore control production according to social priorities, would thus suffer from the same discrimination against State enterprise. Certain of their commercial secrets might have to be divulged unilaterally, and without any counter-claim, to their private commercial competitors in foreign countries. Thus, all conscious long-term planning, whether it involved nationalisation, or not, would have been severely penalised, if not made impossible.

(e) Member countries, which had established a complete or substantial monopoly in the foreign trade *for any product*, must:

- (a) provide all information to other countries so as to allow effective supervision, lest this monopoly protected domestic producers through its trading policy;
- (b) buy or sell sufficient quantities of the commodity in question at home and abroad to supply total demand for that product at the quoted price.

This would have rendered State revenue monopolies which exist widely in Europe, and elsewhere, almost unworkable. It would also render the orderly distribution, by rationing, of State traded necessities in scarce supplies impossible,² except under the same limited cases which apply to quantitative restrictions.

(m) Member countries which establish or maintain a complete or substan-

¹ § 26.1.

² *Ibid.*, § 27.

tially complete monopoly of their foreign trade were to undertake to import over a period products of other members (not having a foreign trade monopoly) at an aggregate value not less than an amount to be agreed upon.¹ Thus member countries which effectively plan their foreign trade must *unilaterally* enter purchase obligations *though all other countries are forbidden to do so*, and though, because of this fact, they will have no certainty whatever whether and at what prices, they will be able to sell their own products, and, thus, whether they will be able to fulfil these obligations. In their case even the escape clause granted to countries which establish foreign trade monopoly only in respect to certain products, and not over their whole foreign trade, analogous to the regulations governing the imposition of quantitative restriction, was not applicable. They therefore were to suffer from an even more severe discrimination than state monopolies in single products.

(n) Countries which do not join in the organisation are to suffer the penalty of being excluded from all concessions in tariffs, quotas etc., negotiated under the auspices of the trade organisation. The most-favoured-nation treatment is not to be extended to them and if member countries have commercial agreements laying down such treatment, these agreements are to be broken. Members were to undertake not to conclude any special agreements with them, *e.g.* reciprocal trade agreements or long-term purchase agreements which are assumed to be discriminatory under the charter. They are to be isolated so as to enforce their joining the organisation.²

(o) The formation of new customs unions is to be discouraged by the provision that only complete customs unions are to be regarded as non-discriminatory and that even revenue duties are to be abolished to qualify for the exception.³ Full information was to have been supplied to the organisation to enable it to supervise this provision.

(p) While all cartel or other agreements and practices relating to the production or price policy of manufacturers are to be outlawed, inter-governmental commodity agreements are to be promoted for the restriction of production, the regulation of trade or prices of agricultural and other primary products. As the planned long-run expansion of production through long-term reciprocal agreements was outlawed, this provision meant that the terms of exchange between primary products and manufactures were to be artificially changed to the detriment of manufactures. This provision was bound to have an especially detrimental effect on European industrial countries which already had suffered through the war, whose economic system was based on the import of primary products and the export of manufactures.⁴

(q) In deciding the policy of the organisation, members were to have equal votes and in most cases a simple majority was to decide. This superficially democratic arrangement obviously favoured powerful countries which possess many economically dependent client states whose number would sway decisions.¹

¹ §28.² §31.³ §33, especially sub-para. 4.⁴ §34-40 and 42-49.

(7) Nothing was provided to enforce the non-discriminatory grant of foreign loans on the basis of *solely economic* considerations. *Yet it is clear that discrimination and political pressure can be equally applied by restricting the supply of purchasing power granted by loans and not merely by the purchase of goods.*

(8) Nothing was provided to outlaw the discrimination implied in the grant of tied loans, *i.e.* loans which provide for the spending, even if this were commercially less favourable to the borrower, in the lending country of the whole of the loan. This discrimination in favour of rich potential lending countries was re-enforced by the specific mention of 'the terms of purchase or sale' among the commercial considerations governing the trading policy of state enterprise. State enterprise thus could discriminate in its purchases among member countries provided it received a tied loan.¹

(2) Non-discrimination and equal access to services was not provided for except in the case of State enterprise which was in this respect also discriminated against.² Shipping, air transport, banking and insurance, fields in which certain powerful nations indulge in preferential and other discriminatory practices, were to remain free of regulation.

III. THE PROBLEM BEFORE THE PREPARATORY COMMITTEE

(1) *The basis of the Draft Charter*

Apart from certain flagrantly discriminatory rules against state trading, and in favour of the bargaining power of potential creditor nations, the American proposals amounted to a complete restoration of the free market mechanism as the ultimate criterion of all international transactions. All that had happened since 1914 in the field of international economics—except of course the economic rise of the United States and the decline of Europe—was to have been solemnly expunged. The world was to have entrusted itself once more confidently and exclusively to the pricing system and the profit motive (except for some primary commodities in the production of which the United States was interested) for its economic salvation, and for its stability and maximum progress to the indiscriminate—but tariff restricted—exchange of goods between the various member countries which differ from one another not merely in size, climate and natural resources, but also in the degree of economic development, social structure, political concepts and aims.

Even from the point of view of the attainment of a maximum supply of material goods and services, an aim which is very far from equal to maximum national satisfaction, this policy will only accomplish its task if certain sets of very specific conditions were to be fulfilled, the coincidence of which has been shown to be extremely unlikely both by the analysis of the economic development in the inter-war period, or by modern economic theory.

(1) The first set of these conditions might be called static. They are conditions whose absence would vitiate the usual interpretation of the principle of comparative costs, even if we disregarded monetary disturbances and fluctuations in the degree of employment of productive factors.

¹ §26/1.

² §52.

- (a) There must be free competition in world markets and within each of the member countries. That is to say, the law of decreasing returns must generally operate, there must be no advantage in size, especially in the size of markets. Moreover, there must be free mobility, *i.e.* no difference in efficiency remuneration between broad categories of occupation within the same country.
 - (b) Social and private costs must be proportional to one another and must remain uninfluenced by the existence of foreign trade. Foreign trade must not increase the riskiness of certain enterprises as against others.
 - (c) Differences between countries must be due only to immutable or slowly changing factors such as the existence of natural resources, climate, but not to factors which can more quickly be influenced by conscious policy such as skill, the existence of capital equipment, etc.
- (2) The second set of conditions might be called dynamic and arise out of the fact that fluctuations in employment might occur as a result of foreign trade which would not arise without it.

- (a) There must be equilibrium in the balance of payments of the leading monetary power of the world system. This leadership depends partly on the size of the country and partly on the size of its monetary reserves. These will enable the leader in the oligopolistic monetary system of the world economy to maintain her policy, or, in the absence of policy, the natural trends to which she is subject, irrespective of what happens abroad. Inflow or outflow of gold will not enforce a change in monetary policy. The income effects which give rise to these gold movements, or are caused by them, will not significantly alter, or cause her to alter, her own national income because of her preponderance in the total world money income, *i.e.* they cannot impair the autonomy of working of her monetary mechanism while her fluctuations influence the equilibrium of others significantly. Should such a leading country be subject to severe fluctuations, unrestricted multilateralism would generalise disequilibria in the world economy as a whole, and if her disequilibrium were deflationary, the foreign trade of other countries would have to be restricted more than it would be necessary to restrict it, if the complete intercommunication between countries were more restricted.¹ While it is not merely unnecessary but

¹ The determination of the level of employment in an open world system thus depends on:

(a) The relationship of the national incomes and the related propensities to consume and to invest of the leading member(s) to the rest of the system.

(b) The magnitude of reserves in each of the countries relative to national incomes and its changes.

(c) The policy (or lack of policy) with respect to (i) exchange rates or (ii) employment in the leading members.

If the leading member has no employment policy and is insensitive to outside influences while the 'weak' members have no reserves, the resultant 'oligopoly position' will be what we might call after Mr. Kahn quasi-Cournotesque: the weak countries must try to

positively undesirable that the leading country should have a balanced current account because she is *ex definitione* more powerful and richer than other members of the world economy, and thus should do everything to mitigate this difference and the difference in capital equipment per head which gives rise to it, it is necessary that any excess on current account should be covered by long-term lending, *i.e.* by lending not liable to sudden reversal, which would inflict disproportional hardship to the poorer areas. Great Britain, as we have shown in an earlier paper,¹ was never, in the first sense, a leading country though her monetary policy determined equilibrium elsewhere; her reserves were extremely small, and her internal equilibrium extremely sensitive to changes in her balance of payments. The United States on the other hand, is such a leader in the both senses of the word. While it determines the level of world activity in a multilateral system, its economic trends are hardly effected by what happens abroad.

- (b) Subject to (a), it is not necessary that the leading power should be fully employed. But it is probable that without full employment the first condition, the balancing of her external payments, can hardly be fulfilled, except if unemployment had been caused by a persistent import surplus (or a failure to increase exports), as in Britain prior to 1931. If unemployment is caused by an internal lack of effective demand unconnected with the balance of payments the risk of wage cuts or other measures to relieve unemployment by pushing exports will be overwhelming. As the demand for imports will also be at a low level the danger of an excess of exports will be appreciable.

The more unequal the distribution of wealth between countries and within each country, the more likely and the more violent is the instability of the world economic system. The war which has destroyed large areas of Europe and Asia, continents where poverty was already acute, and which, at the same time, increased the productive capacity of the Western hemisphere and more especially of North America very sharply, necessarily increased the inequality of distribution of wealth in the world economy. America now represents about two-thirds of the world's manufacturing capacity and up to three-quarters of the world's investment capacity outside of the Soviet Union, which, as a planned economy, is not subject to the same economic difficulties. At the same time, the distribution of the American national income has not become more equal; consequently American savings even during the war

maintain exports at, and reduce imports to, their pre-slump level, if a slump arises in the leading country. And this will involve (apart from the automatic 'deflationary' income effect of the emerging export surplus of the leader on the others) a conscious 'secondary' deflation of the weaker members. The lack of reserves coupled with no employment policy will induce a quasi-Cournotesque solution, the existence of relatively large reserves and some attempt at escape from fluctuations a quasi-Bertrandesque behaviour.

¹ The United States in the World Economy. BULLETIN, Vol. 9, No. 11.

have been concentrated in very few hands, and the current savings' ratio is still extremely high.

In view of the overwhelming importance of the United States of America, and in view of this threatening crisis of under-consumption, once the difficulties of the transition period are overcome, all international agreement on foreign trade should be made subject to a specific undertaking by the richer countries that effective demand is to be maintained at a high and stable level and by what methods. Without such undertaking the increase in foreign trade is liable to transmit economic instability from the larger to poorer areas. The safe-guarding clause of the Bretton Woods agreement which, after certain delays, and subject to credit operations which do not eliminate employment instability, permits discrimination against countries with persistently favourable balances of payments, is as insufficient in this respect as the permission proposed in the U.S. draft Charter to institute quantitative control of imports if balance of payments difficulties are encountered. Both safeguards are *purely negative* in character and merely provide for a contraction of imports but not for an expansion or at least maintenance of the exports of the countries which pursue full employment policies.

In order to safeguard these countries it would have been necessary either to institute multilateral discrimination against depression dumping or permit reciprocal long-term purchase agreements which stabilise and expand demand between member countries. Such agreements would not be discriminating if it were provided that it was open to other member countries to conclude similar agreements. The permission of unilateral discrimination against depression dumping is insufficient, at any rate so far as those countries are concerned, which, being industrial exporters, are menaced by depression dumping *not in their own domestic markets but in third markets* in which they compete with the exports of the countries subject to the depression. It would be unreasonable to assume that these (third) countries, if they do not have to protect their own industry, would exclude cheaper in favour of dearer imports. Yet they would be able to obtain purchasing power to buy these cheap imports only by selling to those countries which are not depressed, whose own capacity to import which depends on their exports, is, however, menaced by the depression dumping. The refusal to accept the principle of reciprocity would, under these conditions, generalise the depression by first making it impossible for the country which is not depressed to maintain her exports in the face of competition from the depressed country, and force that country to restrict its own purchases from the third market, thus making it impossible for that country to continue its purchases in the depressed country. The depressed country would not in the long run gain, but everybody else would lose. The quantum of multilateral trade would under these conditions sink below the level of more restricted trading arrangements (a purely bilateral trade, in the sense of balancing trade between pairs of countries, has never been advocated by the critics of unrestricted multilateralism).

The existence of differences in the size of national markets or even of

protective barriers would not constitute a further argument against a return to free market economies in foreign trade, provided decreasing returns were the general rule. It is increasing returns and market imperfections which vitiate the methods by which the U.S. draft wished to maximise the production of material goods and services. Equality of opportunity could only be attained if smaller and poorer areas were to be permitted to combine into larger areas for the purpose of establishing a coherent plan of industrialisation. In establishing this plan, due regard would have to be had to their relative natural advantages in certain, and the disadvantages in other, fields of production. Without such combination, however, these areas might be permanently prejudiced, since the risk of foreign trading in an unplanned world market economy, being subject to the risk of depression dumping restrictions, is much higher than that of purely domestic trading. The U.S. Charter which only accepted complete customs unions, in practice ruled out equality of opportunity because in many cases such complete unions are impracticable. The conclusion of new preferential tariff arrangements must therefore be considered as a condition of the restoration of equality of opportunity between countries of unequal size.

(2) *Britain and the Preparatory Committee*

The acceptance *in toto* of the United States draft Charter by the Preparatory Committee could not be expected. It did not provide for the vital interests of either the under-developed or the war-damaged countries, which between them constituted the majority of the Committee. In addition, from the beginning of the negotiations the Australian delegation with support from many other countries, especially France, India and Brazil, insisted, as it already had attempted to do on earlier occasions, on the primacy of safeguarding the maintenance of effective demand as a condition not merely of freer trade but of world prosperity. If suitable measures could be devised within an unlimited multilateral system, well and good; but if such an attempt proved abortive, or for the case of a temporary failure of the international arrangements, they were insistent on obtaining safeguards in the Charter lest that instrument should force member countries to suspend their industrial development, or to follow in the downward spiral of the leading member of the system.

Many of the non-American delegations could moreover be expected to protest against the discriminatory provisions against state trading. Some of them had maintained Government monopolies as a means of obtaining Government revenue since the Middle Ages. Others had recently nationalised important industries as a means of economic planning. Most of them would have been paralysed in their reconstruction policy by the completely arbitrary definition of state trading in the Charter, which would have brought practically the whole of the economic system, including the non-nationalised sector, under the supervision and arbitrary restrictions of the Charter, because in most countries the State 'indirectly' determines the production and distribution of essential supplies.

But the position of none of these delegations was more difficult than that of the United Kingdom. In the short run, the prohibition of planning imports and more especially of giving priority to the import of necessities would have rendered the restoration of the balance of payments without a fierce policy of deflation and unemployment almost impossible. To hardly any country would regulation by reference to an earlier representative period be more dangerous, as the war has changed her international position to a greater extent than that of other countries. In the longer run, the policy of nationalised industries, especially coal and steel, would be threatened by the indiscriminate application of these rules. Moreover, as a country whose prosperity depends on exports, Britain could only be protected against the effects of a depression in a leading industrial country if measures were taken to impose multilateral discrimination against depression dumping. As a country whose economic system had been gravely weakened by the inter-war depression and war-time exhaustion and strain, she could only hope to recapture her industrial prosperity if she could plan her industrial reconstruction as a member of a larger trading area under co-ordinated planning. But a complete customs union between the Dominions and Britain, or certain Western European countries and Britain could not be contemplated. Hence for none of the countries was the maintenance of preferential arrangements and the possibility of economic planning through long-term reciprocal arrangements more important.

Britain has no natural resources of any prominence, yet is densely populated. In view of the evident determination (and interest) of her customers to develop industrially, she will have to rely in the future mainly on the production and exchange against primary products of high-grade consumers' goods and capital goods. But in both these categories increasing returns operate very sharply and in many products optimum sized factory units could be established—if Britain were to rely purely on the home market—only through a radical re-organisation of the industry either through nationalisation or the establishment of a national factory to compete with the existing oligopolistic units. If preferential arrangements were possible the required increase in productivity could be achieved without such reduction in the number of firms and products, without loss of productivity and to the benefit of all. In the absence of such arrangements it would be suicidal to rely on international markets because sufficient security for the maintenance of effective demand could not be obtained. Given the existence of more powerful American units in the same industries, it would be futile to hope in any case that new British firms would enter the field—an international application of the well-known principle of the restriction of entry in industry through growing size. Apart from these points the British position would have been jeopardised by leaving tied loans free from regulation, indeed accepting them as one of the 'commercial considerations' which might influence even state trading agencies in favour of otherwise less advantageous suppliers. This ruled out the bargaining power of England which is based on

being able to guarantee large and stable markets, while leaving the bargaining power of loans, which in any case is strong as it creates special connections, completely free.

While the British Government was forced to accept the basic principles on which the U.S. draft Charter was based, it was in no way committed to the wording of the Charter which showed in the most important points, *e.g.* the non-discriminatory administration of quantitative trade regulations, state trading, important alterations as against the original proposals. One might have expected, therefore, that in practice the British delegation would join with other European countries as well as the Pacific Dominions in insisting on amendments to the draft Charter.

IV. THE NEW DRAFT CHARTER

The deliberations of the Preparatory Committee resulted in a report and an amended Draft Charter. These documents are being further considered by a Drafting Committee which was convened for January 20th in New York. The final re-draft will be submitted to the second meeting of the Preparatory Committee in Geneva in April 1947, for further consideration prior to submission to the Full Conference which is to be convened later in the year. The following must, therefore, be considered a preliminary survey, subject to possible considerable amendments.

The Report and the redrafted Charter represent in all important issues a very considerable advance towards the acceptance of full employment as the major objective of economic policy and go some way in guarding against the risk that a severe deflationary pressure, originating in one country, might become cumulative as the result of the normal automatism of multilateral trading. In particular the problems of :

- (i) maintaining full employment by concerted action despite a depression in a member country;
- (ii) enabling poor or war-damaged or industrially under-developed countries to engage in a programme of deliberate industrial expansion;
- (iii) permitting countries to maintain an orderly distribution of scarce resources;
- (iv) equalising the treatment of State owned or controlled and private enterprise,

were approached and dealt with in a different spirit from that of the U.S. draft and one which is largely objectionable.

If we compare the terms of the two documents we find the following specific improvements :—¹

(a)² The Committee accepted the view that the maintenance of *full* (and not merely 'high and stable level') employment is one of the main conditions of achieving a high and stable level of international trade. This is a decisive

¹ References to Part II of this paper are placed in [] and to the Report of the Committee in (). References not in brackets mean the new Draft Charter.

² [a]; (Part II. Chapter 1/A/1-3) §3-5.

theoretical advance over the point of view of the U.S. Draft. The need for a planned raising of productivity in undeveloped countries through industrialisation has also been recognised, despite the fact that this may necessitate increased protection.

(b)¹ The new draft recognises that the failure to maintain domestic employment in one country might seriously prejudice the balance of payments of *other* countries. It would be unjust and detrimental to prosperity and world trade if the burden of readjustment were to be put solely on the shoulders of those countries which have come under pressure. Surplus countries are, therefore, bound to consult with the new Organisation if called upon to undertake to give appropriate help in the readjustment of the disequilibria in the balances of payments. This help might consist in stimulating imports, in removing special encouragement to exports, in increasing foreign investment or appreciation of its currency.² In case of failure, deficit countries are permitted to institute (discriminating quantitative) restrictions against 'depression dumping' and the Organisation 'shall have regard' in 'the exercise of its functions' for the member's need to safeguard himself against being engulfed by deflation.³

(c)⁴ The Committee recommends direct *international* action to maintain full employment.

The co-ordination of the agencies and Governments into whose field these actions properly fall is to be achieved by the Economic and Social Council of the United Nations. The Preparatory Committee, however, prepared a draft resolution for the forthcoming full Conference of the United Nations on Trade and Employment which is of so great an importance that it is worth reproducing in full :

THE UNITED NATIONS CONFERENCE ON TRADE AND EMPLOYMENT

Considering that a significant contribution can be made to the achievement and maintenance of full and productive employment and of high and stable levels of effective demand by international action sponsored by the Economic and Social Council and carried out in collaboration with the appropriate inter-governmental organisations, acting within their respective spheres and consistently with the terms and purposes of their basic instruments HEREBY asks the Economic and Social Council to undertake at an early date, in consultation with the appropriate inter-governmental organisations, special studies of the form which such international action might take AND SUGGESTS that, in addition to covering the effects on employment and production of a lowering of barriers to trade, the studies of the Economic and Social Council should include a consideration of such measures as :

- (1) The concerted timing, to the extent which may be appropriate and practicable in the interests of employment policy, of national and international measures to influence credit conditions and the terms of borrowing ;
- (2) National or international arrangements, in suitable cases, to promote due stability in the incomes of producers of primary products, having regard equally to the interests of consuming and producing countries ;
- (3) The timing, to the extent which may be appropriate and practicable in the interests of employment policy, of capital expenditure on projects which are either of an international character or are internally financed ;
- (4) The promotion, under appropriate safeguards, of an international flow of capital in periods of world deflationary pressure to those countries whose balance of payments needs temporary support in order to enable them to maintain domestic policies for full and productive employment.

(d)⁵ The Preparatory Conference recognised the urgent need to differen-

¹ [b] ; (1/E and F) b) ; §§ 6-9.

² § 7.

³ § 8 ; (Ch. III. C. 1), p. 15.

⁴ [b] ; (Ch. 1/G, H, I).

⁵ [d] and [f] (Chapter II) ; Chapter IV, § 10-13.

tiate between the problems (and therefore the needs in the matter of commercial policy) of industrially *under-developed* and *fully mature* countries. It recommended, therefore, that less industrialised countries should be able to plan deliberately their industrialisation programme, and introduce, with the consent of the Organisation (Section D), such protective measures as are necessary, even if they conflict with the general obligations of the Charter. In particular, if, as a result of its development programme, an underdeveloped country should suffer from a deficit in its balance of payments, it will be permitted to impose quantitative restrictions,¹ so as to safeguard essential imports. The view that quantitative regulation might in certain circumstances be less restrictive than other forms of protection, *e.g.* tariffs, because of the greater certainty which it gives to the domestic producers (Section T, p. 8)—a view strenuously opposed by the U.S.—was accepted by the majority. The problems of underdeveloped areas are dealt with in a new Chapter of the Report and of the Draft Charter. While the general acceptance of the need for industrial development is welcome, the need for a similar reorganisation even of 'mature' economies hit by the war was not recognised.

(e)² The unconditional most favoured nation clause was modified so as to exclude :

- (i) public orders, including public works programmes;
- (ii) those preferences which have not been abolished as a result of the multilateral negotiations envisaged for the general reduction of tariffs and are not restricted to those given by the U.S. and by the British Commonwealth.

It is still intended to use any decrease in the general rate of tariffs negotiated under the proposed multilateral bargaining system for the *automatic reduction* of existing preferences. But the binding consolidation of *low* tariffs is in principle accepted as the equivalent of a substantial reduction of high tariffs.³ The Charter no longer discriminates against the restoration of preferences in case of emergency; under the new draft, not merely tariffs can be raised again but preferences can also be restored to their old level.⁴ In both cases the member concerned undertakes to notify the Organisation and negotiate with the other members affected.

(f)⁵ The Preparatory Committee recognised the impossibility of establishing at once full Customs Unions between highly developed countries, however beneficial their long run effects might be. It therefore provides that the transitional measures needed for 'the formation of' a Customs Union should be permitted, even if conflicting with Chapter V of the Charter. New preferential arrangements (on a regional basis) can be approved by a two-thirds majority.⁶

(g)⁷ General prohibition of quantitative restrictions was reaffirmed, but it was recognised that quantitative restrictions will in practice be necessary

¹ §26, 3e and 4.

² [c] (Chapter III, A) ; Chapter V, §§14 and 24.

³ §24,

⁴ §34.

⁵ [f] (Chapter III, A/5/a and bi) ; §38.

⁶ (Chapter III/A/5b ii), §36.

⁷ [e] (Section C), §25-28

not merely to readjust balances of payments in emergencies, but also to plan the orderly development of a country. The organisation was therefore precluded from questioning internal policies which caused balance of payments difficulties, necessitating quantitative restrictions.¹

(h)² The non-discrimination between commodities enjoined by the U.S. Charter was dropped and countries are permitted, in administering the quantitative restrictions to choose between more or less urgently needed products.³ On the other hand, it was agreed that countries should not exclude altogether the products of other members, even if they are luxuries.

(i)⁴ The new Charter enjoins member countries not to discriminate between members in administering quantitative restrictions on imports. Important exceptions to this rule, however, were recognised at the instance of certain overseas countries which are beginning their industrialisation, though these exceptions do not provide for a *multilateral discrimination* against the exports of a country which, by its depression, menaces the prosperity of the rest of the member countries. The exceptions include those quantitative restrictions imposed :

- (i) to implement (and which are equivalent to) the scarce currency clause of the Final Act of the Bretton Woods Conference;
- (ii) to forestall an imminent threat to the monetary reserves of a country;
- (iii) to help war-damaged countries, if they were not substantially discriminatory, only until December 31st, 1951;
- (iv) to provide members with imports above those which could be obtained if non-discrimination were integrally applied, given the crisis in its balance of payments;⁵
- (v) which are equivalent to exchange restrictions permitted under the Bretton Woods Agreements for the transitional period. The latter exceptions are to be reviewed not later than December 31st, 1951.

If suitably interpreted, reciprocal trade agreements negotiated and implemented under (iv) might partially overcome the deflationary impetus of multilateralism. It would seem to depend almost entirely on the Organisation and the spirit of its personnel whether this paragraph can be used for the re-expansion of trade, as members who have re-established convertibility of their currency may impose these restrictions on imports only with the prior approval of the Organisation, in agreement with the International Monetary Fund. Unfortunately, this paragraph, despite the fact that it only serves 'to provide the member with additional imports above the maximum total of imports which it could afford otherwise', is to be reviewed not later than December 31st, 1951, because it 'restricts the expansion of world trade'. This is a clear contradiction. If discrimination permits an increase in imports it can hardly curtail the volume of foreign trade. One is not certain which of the two theories implied in the Draft is the true expression of the view of the Sub-Committee.

¹ (Sec. C, 2a). ² [c]. ³ §26.4. ⁴ [f] (Sections C.4.), §§ 27-28. ⁵ §28 (1) (d)iii and iv.

(k)¹ The discrimination against all State enterprise was, if not completely eliminated, at least considerably lessened. After vigorous protests by European countries, the definition of State enterprise was modified so as to exclude those *indirectly* controlled by the State. State enterprise under the new definition is an enterprise over which the State exercises effective control. The provision of information is restricted to that required from any other member in respect to private trade under paragraph 35 of the new Charter.

On the other hand, the restriction attached to the operation of State enterprise according to which they should be governed entirely by short-term commercial considerations has not been altered.² Long-term reciprocal agreements are still impossible, though it appears that tied loans are accepted as one of the commercial conditions attached to the sale (thus the bargaining power of loans is accepted, the bargaining power implicit in the provision of stable markets is excluded). On the other hand, some purchases not for resale have been exempted from the operation of non-discriminatory purchases or sales.³ The obligation on State enterprise to sell or buy sufficient quantities of the product so as to satisfy internal and external demand at its quoted price has been maintained, but its operation has been suitably qualified.⁴ Due regard has to be paid by the Organisation enforcing this rule to the regulation of consumption by rationing; also to the fact that many State monopolies are established solely for revenue purposes and that their profit margin is in the nature not so much of a tariff as an Excise duty. The obligation to provide exports at the domestic price was, moreover, restricted to 'the fullest extent that they can be made available.'⁵

(l)⁶ On the other hand, only marketing boards established by express Government action are to be subjected to these restrictions.

(m)⁷ The vital point concerning the trade of countries which have complete State monopolies of their foreign trade, has not been re-considered. It is unfortunate that the Committee did not decide to envisage the generalisation of the obligation of maintaining purchases at a minimum level. The reduction of trade barriers would only have the effect of maintaining demand for exports if the national income of the member countries were to remain unchanged. Despite the very real advances towards international action to maintain employment the inclusion of such a definite obligation would have been a more satisfactory solution.

(n) The section dealing with the so-called restrictive practices, *i.e.* the planning of the production and distribution of manufactures, has been made much more flexible.⁸ Machinery has been evolved to consider complaints by member countries and investigate them. Identical procedure will be applied whether the complaint concerns public or privately owned enterprise or enterprises.⁹

(o) The section relative to inter-governmental commodity arrangements

¹ ((Section E) p. 17).

² [j] §31..

³ §31.2.

⁴ §32, 2 and 3.

⁵ This is a vital gain for most European countries which have established national ownership of coal and pursue a policy of domestic price stabilisation.

⁶ (E/1/a/vii, p. 17).

⁷ §33.

⁸ [p] (Ch. IV, A-11), §§ 39-45.

⁹ §35.

has been considerably modified to safeguard the position of the consuming countries.¹ Prior to organising such arrangements, study groups will always be called to consider the facts. Nevertheless it is doubtful whether the problem of the fully industrialised countries which have to import their food and raw material against exports of manufactures, has received sufficiently exhaustive attention.

(p) The problem of voting has received considerable attention but no final decision was reached.² Some delegations felt that equal votes and simple majorities might result in grave injustice as the countries have not identical interest in foreign trade. The system, moreover, might easily lend itself to abuse as powerful countries might easily secure many satellite votes. It was in any case agreed to reduce the compulsory membership of the organisation to an initial period of three years, and the notice of withdrawal to six months.

(q) The clause enjoining discrimination against non-members (para. 31 of the U.S. Charter) has been left for later discussion. While some countries may feel justified in reserving concessions negotiated on the basis of the Charter to countries which accept the Charter and become members of the organisation so as to make adherence to it desirable, the position of members which trade with non-members might become extremely awkward if this penal clause were strictly enforced.

(r) State enterprise providing services is no longer subject to stricter regulation than private enterprise. Para. 26 of the U.S. Charter concerning the regulation of state owned enterprise is now so modified as to be restricted to goods.³ But this solution leaves international lending and services, *e.g.* shipping, air-transport, insurance and banking, free of all regulation, to the disadvantage of countries which are consumers or weak competitors in the provision of such services. The exclusion of the regulation of lending moreover represents a sharp discrimination against countries whose bargaining power consists in their being large *purchasers* of commodities. While they cannot use reciprocal or barter agreements to stimulate exports, export surplus countries can push their exports by tied loans, the formidable bargaining power of which has been further strengthened by accepting them as one of the 'commercial considerations when purchasing their requirements abroad'.⁴ This must gravely prejudice the prospects of Britain.

V. THE PROBLEM BEFORE THE GENEVA CONFERENCE

The Preparatory Committee has made remarkable progress in adapting the U.S. draft Charter to the vital needs of smaller and poorer countries, and to the requirements of modern economic thought in general. This is clearly demonstrated by our comparison of the two documents. For this achievement the world has to thank to a very large extent the conspicu-

¹ (Ch. V. A-D) paras. 46-60.

² [q] (Chap. VI), paras. 61-89.

³ § 35.

⁴ *I.e.* state enterprise might purchase dearer commodities in a country which provides loans. No such discrimination is permitted in favour of a country which promises to buy a certain quantity of the exports of the other country.

ously statesman-like attitude which must have been adopted (according to the internal evidence of the documents) by the U.S. delegation.

Unfortunately Britain benefited only to a minor extent from this change. While under-developed (and war-damaged) countries whose industries mainly supply the home market have received adequate protection for planning their reconstruction and further development, and have also been granted the privilege of defending themselves against depression dumping by discriminating quantitative restrictions which would not necessitate a decrease of imports from other countries not affected by a slump, an equal protection has not been secured by the British or the French Delegations for industrialised countries which must *export* manufactures in order to maintain life. The fact that the implications of the new international rules of conduct are not well understood in France, and that Germany and Japan, which are in a similar position, were as enemy countries not represented, can only partially explain this failure.

The main weakness of the British position originates in the fact that we depend on industrial exports and that the legitimate desire of the poorer countries to industrialise themselves will leave us for our exports only the field of relatively more complicated—mainly semi-luxury—consumption goods¹ and capital goods, the demand for which is far more sensitive to possible slumps in any part of the world system. Such a slump—as we have pointed out—would increase the competitive force of other industrial countries subject to depression in the markets for which we have to rely to earn foreign exchange for our own imports. At the same time it would weaken the purchasing power of those countries because of the loss or narrowing of the market which the depressed countries represent for these countries. While it is not possible to avoid the *primary* deflation in these markets due to the slump in another country, multilateral measures can be taken to limit the *secondary* deflation which would result from the increased sales of the depressed country in these markets. In order to achieve this a multilateral imposition of quantitative restrictions against the depression dumping of the unstable countries *in third markets* would be necessary. This would be analogous to the scarce currency clause, which is too tardy and uncertain in its operation, and would enforce discriminatory quantitative restrictions against depression dumping, thus safeguarding the position of industrial exporters which can no longer take recourse to reciprocal purchase or barter agreements to protect their exports, and hence their import capacity. This has not been secured. Moreover, despite the important advances which have been made towards the establishment of a more rational international economic system even the new Charter needs strengthening in several respects.

¹ This is not to say that Britain should specialise on 'hand-made' 'high-quality' products. Growing equalisation of income abroad will narrow the market in these goods (except perhaps in U.S.). Standardisation and mass-production is an essential condition of restoring productivity and our competitiveness. But it means that we cannot hope to sell *e.g.* grey-cloth in quantity.

(1) The international co-ordination of employment policies to eliminate the danger of mass unemployment should be made more definite, and the sanctions against the country which fails to implement its pledge to maintain full and productive employment should be made more specific.¹ In particular a number of projects, not necessarily self-supporting or self-liquidating, should be prepared well in advance to be executed whenever a depression threatens to develop in any one important country. The finance of such projects should preferably be arranged by the governments of the member countries having an excess of exports which could guarantee the obligations to be issued. It is unlikely that a *joint and proportional* guarantee of *all* members will open access to the capital markets of the most important member countries, when the threatened slump is likely to engulf the weaker members of the organisation.² If indeed an international investment board were established with powers to create internationally acceptable purchasing power according to the need of maintaining international effective demand, and to direct international investment policy in the sense of directing the contracts arising out of the international investment towards countries most likely to be unfavourably affected by the slump we should have approached the solution of this problem. Even in that case the question should be considered how these international public works programmes are to be managed lest the instability in richer countries should result in harmful counter-cyclical fluctuations in the poorer countries which would receive assistance whenever there is a slump in the developed countries, only to be bereft of help as prosperity returns to the former.³

(2) The provisional retention in para. 33 of the new draft Charter of the unilateral obligation on complete foreign trade state monopolies to undertake in advance fixed purchases in other member countries without any assurance that they will be able to acquire foreign exchange by export to these uncontrolled markets offends against the principle of equity and must therefore be condemned.⁴ On the other hand the generalisation of this obligation would not only do away with the penalisation of fully collectivised countries but also represents the easiest way in which fluctuations in the world economic system can be avoided, or at least minimised. The framers of the draft Charter were evidently acting on the basis of the classical assumption of full employment, and the steady increase in effective demand, when they equated this obligation on collective countries with a mere obligation of other economies to reduce tariffs. For as long as national income is maintained in

¹ Cf. Sections G, H and T of Chapter I of Part II, of the Report of the Preparatory Committee discussed this problem but its conclusions were not embodied in the new draft Charter.

² This has been shown in the case of the International Bank which after a year of existence, could not place any of its bonds in Wall Street.

³ Cf. my article on 'The theoretical basis of post-war investment policy,' O.E.P. No. 7, 1945.

⁴ The amount of the purchases is not stated, and, if literally interpreted this obligation need not involve hardship. Nevertheless, as §35 permits retaliatory action in case the Organisation considers that the member did not comply with the 'terms of the Charter' and as the voting is by simple majorities, and as countries maintaining complete trade monopolies are very few, this unilateral obligation does threaten the position of completely collectivised economies.

uncontrolled economies a reduction of the barriers against trade would *ipso facto* result in an increase of trade. They should have no objection therefore to the establishment of a second line of defence against depressions by providing that *each country*, whatever its economic system, should undertake to make available to the world as a whole a certain specified amount of foreign exchange (the amounts to be revised periodically to take into account the expansion of production) either by imports or by grants, gifts, and, to some more limited degree, by foreign loans.

(3) Alternatively, countries whose balances of payments have come under pressure and which are not under-developed countries needing further capital import should be enabled to restore their equilibrium without having to take recourse to measures (*i.e.* deflation) likely to endanger their own or other countries' prosperity. Accordingly, definite rules should be elaborated and incorporated into the Charter instead of the indefinite wish in Section G of Chapter I of Part II of the Report. The increase in demand due to the international investment projects should be diverted to their industries to help in increasing their exports and balancing their international payment. In particular, the permission to institute discriminating quantitative regulations^o to 'provide a member with additional imports above the maximum total of imports which it could afford' if its restrictions were non-discriminatory should not be eliminated after December 31st, 1951, as, contrary to the wording of (3) of the Article, these restrictions can *ex hypothesi* not retard 'the expansion of world trade'.¹

(4) If, nevertheless, it should unfortunately prove impossible to avoid a depression in a country by international preventive action, we recommend that Article 7 of the draft Charter should be strengthened to accord more closely with Section E of Chapter I of Part II of the Report and more especially with Sections 2 and 3, *i.e.* :

'that the member whose failure to readjust their favourable balance of payments has caused pressure on other countries should be forced to readjust its balance by appropriate measures :

- (i) stimulation of imports by direct action, by decrease of protective measures, or by the appreciation of its currency.
- (ii) increase in foreign investments,
- (iii) removal of stimulus to exports.'

(5) If even these measures are insufficient to prevent the spread of depression, a procedure should be elaborated which will enable multilateral action to be taken against the export dumping of the depressed country. The multilateral action provided for by Article 8 on the Safeguards for countries subject to external deflationary pressure, in conjunction with Articles 34 and 35 on Emergency Action and Consultation will, in general,

¹ [Article XXVIII/I/d/iii]. The inclusion of this Article tends to show that the British Treasury at long last insisted on some safeguards against the 'Free Trade' traditions of the Board of Trade. Unfortunately the safeguards are of a negative character and cannot easily be used to promote exports which is the basis need for Britain in order to maintain vital imports.

enable countries whose industry works exclusively for the home market to protect it against external pressure. This safeguard will be insufficient for most European industrialised countries whose exports will have to face the 'depression dumping' of the depressed country in third countries. It is insufficient because these third countries might not be willing or even eligible to apply Article 7, and thus the industrial exporter might be forced to restrict her imports from third markets because of her inability to export in competition against the depression dumping. This in turn will react on the purchasing power of the 'third market', and reduce the volume of exports from the depressed country. Hence, in the end, no-one will benefit, not even the country which was the original source of the depression, and all will lose by basis of Articles 4, 7 and 8, decide upon a *general* discrimination by all members against the exports of the (depressed) country showing a persistent favourable balance of payment. This would mean, not the introduction of a new principle, but the extension (and strengthening) of the Scarce Currency Clause of the Bretton Woods Agreements, already accepted by the United States.

(6) The penalisation of nationalised industries and state enterprise in general, though much reduced in degree, is still prevalent in the new draft Charter, and should be altogether eliminated. In particular the planned development of enterprise offers such advantages for the maintenance of stability that it would be undesirable—even if it were possible in a collective or mixed economy—to force it to readjust itself to the uncontrolled fluctuations of prices in the world markets. The public ownership or control of industries is widespread and still increasing in Europe, Asia, Africa, and also Oceania. In many cases it has come about as a result of the inability of uncontrolled market forces to deal with the post-war problems of these continents. The artificial scheme proposed would inevitably break down, but until it breaks down it would unfairly penalise these countries by retarding reconstruction. This would require the redrafting of Articles 31 to 33 of the new Charter, so as to redefine the 'commercial considerations' which are to govern the purchasing and selling policies of state owned or controlled enterprises as to permit long term purchase agreements and admit the self-evident fact that the provision of stable (and *a fortiori* of guaranteed) markets is a service rendered to the producers because it frees them of uninsurable risks, which might duly be taken into account when concluding commercial agreements or transactions. This would limit the intolerable preference now granted to countries which can provide tied loans. In this way the nascent or slowly reorganised industries in poor areas can be given an opportunity to achieve a level of productivity equal to that of their more fortunate competitors first in the field or fostered by fortunate political or historical accidents.

(7) The Governments of fully industrialised rich countries rather than powerful private corporations intent on earning maximum profits should promote industrial development in under-developed territories. In particular the feasibility of establishing public corporations for the purpose of develop-

ing larger areas, even if they are not under common sovereignty, should be explored as the main expedient to solve the problem. In these international public corporations the governments of the countries to be developed should have majority representation. International public works projects discussed above (§1) should be undertaken and financed by organising such corporations.

(8) The principle of non-discrimination should be extended to services and also to credit and loan operations; more especially the tying of loans should be prohibited.

(9) Greater facilities must be given for the formation of preferential regional economic areas in order to equalise economic opportunity between large and small political units. In particular the Organisation should not prohibit the establishment of such regional arrangements provided countries which proposed to form such regional planning units undertake that their effective demand for foreign products outside the area will not after the first readjustments be smaller in the aggregate than before the formation of the new arrangements.

VI. CONCLUSIONS

The history up to date of the efforts to secure a reasonable framework for the expansion of foreign trade contains a discouraging lesson for this country. The experts representing the U.S. when approached in a spirit of friendly co-operation, yet sufficient firmness and an adequate theoretical and practical case, do not refuse to discuss or modify their preconceptions, however strongly and sincerely held. The failure to obtain safeguards for Britain whose vulnerability and plight are potentially greater than that of any other country cannot be attributed to U.S. unfriendliness, but to British incapacity. The fears expressed by Sir Hubert Henderson 'that there are various indications that those most directly responsible for our commercial policy believe that our best hope lies in using joint Anglo-American pressure to force other countries against their better judgment and desires to reduce their tariffs and other barriers to imports' have been justified with a vengeance. Not only have we been acting 'in the spirit of the monkey which had lost its tail and sought to induce the other monkeys to cut off theirs' but we have shown ourselves so fully satisfied with the loss of the tail that we did not, or at least could not, even insist on having the operation performed on the others. The fact that our position has been potentially weakened by the concessions made by the Americans to the war-devastated and underdeveloped countries leaving us suspended between the powerful drive of superior American competitive power and the defensive measures of the less fortunate countries other than ourselves cannot be attributed to the malevolence of anybody but to our own faults.

The world in general and the British Commonwealth in particular is faced with a most difficult problem at the coming Geneva Conference.

A restoration of British prosperity obviously depends on an intensive intercourse between herself and the world economy. As an old industrial country, highly populated, her standard of life depends on the service she

can give to less developed but potentially expanding countries in restoring their economy, or rather in securing a planned policy of industrial development. It stands to reason that the British Government must welcome the creation of conditions favourable to the development of an intensive intercourse between nations tending to increase productivity in each of the areas. This means also the acceptance generally of a definite code of conduct, for otherwise the outbreak of an uncontrolled competition in beggar-my-neighbour policy might be expected by individual countries, whenever instability occurs and balance of payments difficulties are encountered, leading to national autarky and not even regionalism. Criticism of the past policy of the British Government is based, not on a rejection of all 'rules of conduct' and the demand for full freedom of action. Britain might not benefit by such 'freedom' which might easily deteriorate into chaos and indiscriminate restrictionism. What is required is that the rules of conduct accepted by the British Government should not confer privileges on any single type of country, large or small, rich or poor, industrialised or under-developed, to the detriment of any other, but provide maximum incentive for all specialising in the production of goods in which they have maximum relative advantages. The U.S. draft Charter supported by the British Government was subject to criticism, because it favoured large countries which have established an advantageous position by being first in adapting their productive system to mass production methods and which were able to back their productive capacity with a capacity to provide loans. At the same time smaller under-developed areas which could not provide loans but depended for imports on exports, were handicapped by the rules, for their export industries were put at a definite disadvantage in comparison with those which could rely upon powerful financial backing. There is thus an overwhelming case for insisting on further modification of the New Charter.

T. BALOGH.

POST SCRIPT

The argument for revision is strengthened by recent developments on the U.S. The limitations posed by the Charter (even if it were further amended) on the planned development of international exchange (*i.e.* of the international division of labour), are serious. The argument for joining the Organisation thus depends on the degree to which the United States, are prepared to assure the world of a large and stable supply of dollars. No world system can be based on lending alone. It must be based on a mutually advantageous exchange of products, *i.e.* on the practical application of the principle of comparative costs.

Unfortunately the victory of the Republican Party pledged to maintain tariffs, to cut budget expenditure (including Government grants and loans to foreign countries) and to pursue a policy of debt redemption and of lowering direct taxation necessarily increases the chance of severe instability in the U.S., the development of an uncovered excess of exports, and thus of an

international deflationary pressure. In particular the President, in order to avoid immediate legislation ending the tariff-negotiating powers delegated to the State Department, has undertaken to submit all concessions made on the basis of those powers during the multilateral negotiations at Geneva to the U.S. Tariff Commission. If it is found that U.S. producers are menaced by any concession, then it is to be unilaterally revoked (a right conceded by Article 34 of the new Draft Charter). Although the U.S. Tariff Commission is an independent body with quasi-judicial powers, it must necessarily be much influenced by the industrial pressure groups in America whose fate is confined to its care and whose prosperity is the first factor in its decisions. An increased scope of international trade would undoubtedly demand a far-reaching redistribution of economic activity so as to balance the relative advantage which America enjoys in certain mass production industries by an increased American demand for goods in the production of which she is not so favourably placed. It seems difficult to imagine that the process will be uncontested by those interests that have to go to the wall and who will certainly get very strong backing by the Republican Party.

Article 35 of the new Charter permits, of course, the withdrawal of concessions should any of the member countries withdraw theirs. But this is of little help in increasing world trade and *without a balanced increase in world trade the strict multilateralism of the Charter will have fatal effects on British prospects*, because of the implications discussed in this paper of the acceptance of the bargaining power of strong lenders as against large importers.¹ Especially the prohibition of the discriminatory use of trade regulations by the Anglo-American Financial Agreement and the outlawing of Reciprocal Payment Agreements by the Bretton Woods Final Act, are dangerous for this country. In the absence of a material increase in the U.S. propensity to import the dangers become overwhelming. It is to be hoped, therefore, that our policy will be subject to a thorough revision and alternative approaches will be worked out.

¹ The Canadian wheat agreement (and the terrible loss suffered as a result of the cancellation of the non-ferrous metal contracts) show the beneficial importance of long term purchases for a large importer.

TABULAR APPENDIX

EDITORIAL NOTE

Tables comparing the broad trends of production, prices and wages, the volume of foreign trade and the supply of coal for a number of European countries, the United Kingdom and the U.S.A. are given below. For some countries more up-to-date figures are available than for others. These time lags will, it is hoped, be reduced in future and the tables will be extended when more information becomes available. The index numbers are based as far as possible on 1938.

Explanation of symbols :

- ... the figure is not available.
- () figures provisional or approximate.
- figure is negligible.

TABLE I
Industrial Production (or Employment)
Index Numbers : 1938=100

Index Numbers	1939	1944	1945	1946 ¹	1946				1947 Jan.
					Sept.	Oct.	Nov.	Dec.	
<i>Industrial Production</i> ²									
U.S.A.	122	264	228	191	202	203	204	201	211
France	...	41	46	...	87	93	...	...	...
Belgium	105	...	38	89	96	105	99	...	...
Netherlands ³	111	43	31	66	79	91	90	...	...
Denmark	105	87	79	97	101	103	104	105	105
Sweden	106	93	91	110	109	110	111	111	...
Norway	107	76	69	100	108	108	115	108	...
Finland ³	...	38	45	61	67	66	67	68	...
Bulgaria	106	103	118	122	145	158	141	...	...
Poland ⁴	...	...	59 ⁵	91	99	105	107	100	...
<i>Industrial Employment</i> ⁶									
Switzerland ⁷	99	100	110	123	124	...	...	128	...
Great Britain ⁸	100	...	102 ⁹	99	101	102	103	103	104

Sources : Official Statistics. For *Belgium* : Institut de Recherches et Sociales ; for *Sweden* : Sveriges Industriförbund ; for *Finland* : Unitas.

¹ Eleven or twelve month's average.

² Mining and Manufacturing, except Denmark (manufacturing only) and Finland (export industries). For Poland see footnote 4.

³ Revised figures.

⁴ Production index of selected goods comprising coal, cement, glass, steel, yarns, paper, art. fertilizers, locomotives, railway wagons, also building tenders and some others. Production in the base period 1937 refers to pre-war Poland.

⁵ Fourth quarter.

⁶ Indices of Industrial Production not available.

⁷ Wage earners employed in manufacturing and building. Quarterly figures.

⁸ Employment in manufacturing. June 1939=100.

⁹ June.

TABLE II
Wholesale Prices¹
Index Numbers: 1938=100

Index Numbers			Average			1946					1947
			1939	1945	1946	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
U.S.A.	a ² ...	...	98	134	154	164	158	171	178	179	195
U.K.	a ...	...	101	167	173	174	175	175	177	177	179
	b ³ ...	...	91.5	138	142	143	144	144	146	146	148
France	a ...	...	105	375	650	698	727	822	804	840	865
	b ...	...	92	(275)	190	204	212	240	234	247	255
Holland ⁴	a ...	...	...	181	251	257	259	261	264	266	...
	b ...	...	...	(127)	173	176	178	179	178	181	183
Switzerland	a ...	...	104	206	201	200	199	203	204	204	204
	b ...	...	103	...	204	204	203	207	208	208	208
Sweden	a ...	...	103	173	168	164	164	162	170	172	...
	b ...	...	98	...	173 ⁵	181	181	179	188	190	...
Denmark	a ...	...	105	190	188	191	192	197	198	198	200
	b ...	...	98	...	180	182	183	188	189	189	191
Norway	a ...	...	102	177	168	170	170	170	172	173	171
	b ...	...	97	...	138	140	140	140	141	142	140
Finland	a ...	...	106	386	605	624	631	634	634	639	...
Czechoslovakia	a ...	...	115	173	295	304	307	304	312	313	...
	b ...	...	114	...	170	176	177	176	180	181	...
Italy	a ...	...	...	...	2,530	2,573	2,665	2,805	2,953	3,179	...

¹ Prices expressed in national currencies and in U.S. dollars at official rates.

² a = In national currency.

³ b = In U.S. currency.

⁴ Average 1938-9=100.

⁵ Buying rates for one U.S. dollar reduced as of July 13th, 1946, from 4.20 to 3.60 Kronor.

TABLE III
Wages

Index Numbers ¹ ...			Average			1945	1946				
			1939	1945	1946	Dec.	Aug.	Sept.	Oct.	Nov.	Dec.
U.S.A. ²	...	...	101	163	173	159	178	180	181	182	183
United Kingdom ³	...	...	...	149	162	153	164	164	164	164	165
Switzerland ⁴	...	...	100	146	160	151	...	164	...	166	...
France ⁵	...	...	103	369	477	...	379 ⁶	...	477	...	...
Netherlands ⁷	...	...	100	150	163	150	164	165	165	165	165

¹ Base periods: U.S.A. and France: 1938=100; United Kingdom: September, 1939=100; Switzerland: Jan.-August, 1939=100; Netherlands: 1938-9=100.

² Average hourly earnings in manufacturing. Revised figures U.S. Department of Labour.

³ Weekly wage rates; Ministry of Labour (all industries).

⁴ Hourly wage rates in industry; quarterly figures.

⁵ Hourly wages of unskilled workers. The annual figures refer to October.

⁶ April.

⁷ Hourly wage rates in industry.

TABLE IV
Foreign Trade
Volume Index (Deflated Values : 1938=100)

Index Numbers			1939	1945	1946	1946					1947
						Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
U.S.A.	Imports	...	115	129	...	138	127	128	150	...	...
	All Exports	...	105	184	...	208	147	121	215	...	...
	% Comm. Exports ¹	...	100	39	...	87	91	96	99	...	...
U.K.	Imports	...	97	62	69	...	70 ²	...	...	72 ³	...
	Exports	...	94	46	99	...	104 ²	...	...	111 ³	...
France	Imports	...	88	34	112	116	88	112	87	100	97
	Exports	...	99	10	43	42	46	52	66	75	66
Belgium ⁴	Imports A	...	96	42	...	...	49 ⁵	...	...	...	...
	Imports B	...	84	31	...	...	93 ⁵	...	...	...	...
	Exports B	...	124	—	...	...	12 ⁵	...	...	...	...
	Exports C	...	108	3	...	...	53 ⁵	...	...	...	...
Switzerland	Imports	...	117	31	104	100	94	114	130	136	120
	Exports	...	96	57	101	96	110	120	117	116	103
Denmark	Imports	...	98	21	86	112	105	112	94	102	...
	Exports	...	101	32	60	60	63	74	74	79	...
Sweden	Imports	...	109	21	(67)	75	75	82	86	(83)	...
	Exports	...	106	56	(77)	70	80	81	74	(80)	...
Norway	Imports ⁶	...	111	46	78	92	83	94	113	162	...
	Exports	...	108	19	61	53	68	64	72	63	...

¹ Value of commercial exports as per cent of value of total exports ; the latter include Lend Lease and U.N.R.R.A. shipments.

² Average of third quarter.

³ Average of fourth quarter.

⁴ A=Foodstuffs ; B=Raw Materials ; C=Finished goods.

⁵ Average of third quarter.

⁶ Revised figures.

TABLE V
COALMINING AND SUPPLIES
A. Hard Coal. Output and Employment
Monthly figures or averages.¹

	U.S.A. ²	U.K.	West Germ- any ³	France ²	Bel- gium	Hol- land	Po- land	Czecho- slov- akia
<i>Employment ('000)⁴</i>								
Av. 1946	...	696	235	313	158	34	182	55
1946 Dec.	...	692	245	319	164	37	187	56
1947 Jan.	...	694	253	319	165	37	191	...
Feb.	...	697	278	320	168	37	...	...
Feb. as % of 1935-38	...	91	87 ⁵	147	122	122	...	133 ⁶
<i>Output (Mill. Metr. tons)</i>								
Av. 1946	44.5	15.9	5.1	3.9	1.9	0.7	3.9	1.2
1946 Dec.	43.0	18.4 ⁷	5.5	4.0	1.9	0.7	4.2	1.3
1947 Jan.	58.1	15.1	6.4	4.6	2.1	0.8	4.5	...
Feb.	...	...	6.3	4.3	1.9	0.8	4.1	...
Feb. as % of 1935-38	171 ⁸	84 ⁸	56	110	82	73	82 ⁹	115 ⁴
<i>Output per manshift¹⁰</i> (tons)								
1946 Nov.	...	1.06	0.93	0.62	0.57	1.00	1.07	0.98
Dec.	...	1.04	0.94	0.61	0.56	0.98	1.15	0.98
1947 Jan.	...	1.06	0.98	0.62	0.58	0.99	1.16	—
Jan. as % of 1935-38	...	91	60 ¹¹	72	74	56	...	71 ⁶

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B. Production of Lignite^{1a}
 Monthly figures or averages

Thousand metric tons	Germany		Czechoslovakia
	West Zone	East Zone	
Av. 1946	4,224	..	1,623
1946 Oct.	4,780	9,646	1,595
Nov.	4,411	9,273	1,720
Dec.	4,284	...	1,563
1947 Jan.	4,510	...	...
Jan. as % of 1935-37	130	...	115 ^a

C. Total Imports of Solid Fuels including Bunkers (Ton for Ton)

Monthly figures or averages

Thousand metric tons	Average 1946	1946			1947 Jan.	Jan. as % of 1935-38
		Oct.	Nov.	Dec.		
France	867	719	735	689	725	36
Belgium	262	237	156	167	246	47
Holland	268	214	265	142	281	40
Luxembourg	154	164	161	138	155	61
Norway	157	155	145	77	135	53
Denmark	314	318	220	210	263	56
Sweden	287	340	318	246	261	40
Switzerland	128	134	131	133	170	62
Italy	471	314	334	306	350	32
Finland	68	78	55	43	59	40
Portugal	48	54	17	26	46	43

D. Exports of Solid Fuels excluding Bunkers (Ton for Ton)

Monthly figures or averages

Thousand metric tons	Average 1946	1946			1947 Jan.	Jan. as % of 1935-38
		Oct.	Nov.	Dec.		
U.S.A.	3,686 ^{1a}	4,250	3,780	...	...	353 ^{1a}
Thereof to Europe	1,370	1,134	1,058	963	1,491	...
U.K.	392	410	277	192	214	7
West Germany ^b	1,089	900	804	885	659	24
Poland	1,277	1,313	1,293	1,387	1,546	...
Czechoslovakia	55	25	61	93	104	31 ^b
France	32	15	31	37	42	42
Belgium	78	82	72	79	118	23
Holland	36	45	42	30	41	8

Source : European Coal Organisation ; United Nations, Monthly Bulletin of Statistics.

¹ Calendar months.

² Including small quantities of lignite.

³ British and French zones (see also footnote 10).

⁴ Underground and surface workers, excluding office staff.

⁵ Against average 1935-37.

⁶ December, 1946. ⁷ Five weeks. ⁸ January, 1947.

⁹ February output, 1947, compared with pre-war output in the territories now within Polish boundaries.

¹⁰ Overall. The figures for Germany refer to the British zone only.

¹¹ 83 per cent in the French zone.

¹² Conversion rate for Germany : 9 units lignite=2 units coal ; for Czechoslovakia : 17 units lignite=10 units coal.

¹³ January to November.

¹⁴ November 1946, against monthly average 1939.